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Members of
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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
High Grade
Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 742 March 1, 1918

THE GENERAL MARKET.—While there are so many cross-currents at work that, after the advance the last few months, one feels constrained to adopt a more moderate tone, yet the balance remains, we feel, easily on the constructive side. The whole tone of the situation is quite different from what it was up to two months ago. Some complain that most of the activity arises from "pool" operations. This is, undoubtedly, true, but so it is in the early stage of any constructive period. The very fact that the pools have found it so easy to advance a number of issues 20 to 30 points is ample evidence that these stocks had passed into hands not prone to let go. The same is true, we think, of stocks in general.

Congress will probably soon pass the "Corporation Finance" and "Railroad" bills. While these have not attracted a great deal of attention, no more important measures, from a business standpoint, could well come up. The actual passage of these bills would be the basis for a much greater feeling of confidence.

Perhaps the most noticeable feature, at the moment, is the wide disparity in profits between various lines of business. Numerous increases in dividend rate attest the prosperity of many manufacturing concerns. On the other hand, the producers of several of the raw materials find their margin of profit shrinking. Quite an appreciable proportion of the copper produced, for instance, must be today at a very small profit. Any further increase in cost would, eventually, jeopardize a maximum production just when most needed.

The fact that the Government has already seen the necessity of advancing the price of coal, and has named a fair price for such spelter as it needs, is a favorable augury of a liberal price-fixing policy in the case of other commodities.

In short, the necessity of a maximum production of essentials is coming to be realized as of the fullest importance. If a few companies are so favorably situated as to make unusual profits on a price necessary to insure a maximum production, they will become all the larger contributors to the Government through excess profits taxation.

One feature that deserves a word is that the really able business men of the country are at last coming to be recognized and placed in responsible positions.

A point to be closely watched is the banking situation. Surplus reserves were recently down to an uncomfortably low point and this week what promised to develop into quite an enthusiastic movement in the market was nipped by a necessary advance in the rate for money.

Taken altogether, the situation is so complex that, now that stocks are selling above bargain prices, one hardly feels like assuming too strong a position. At the same time, we feel that this year will be one of uplift, as last year was one of liquidation. It is noticeable that whenever the market is left to follow its own inclinations, it becomes active, at rising prices. Earnings of many corporations continue remarkably large, even after deducting taxes. The prospect is, in short, that the next phase of our war-making activities will be a period of greater or less duration of inflation, and that values behind stocks will continue to increase.

BALDWIN LOCOMOTIVE.—During the past year the Baldwin Locomotive Works was engaged principally in its regular line of business, the production of locomotives, and earnings after making allowances for excess profits taxes, and without taking any account of the undivided profits of the subsidiary Standard Steel Works or the Eddystone Munitions Company, reached the really extraordinary total of $34.53 per share. The Standard Steel Works' undivided profits were equivalent to $14.58 per share, making a total of $49.11 per share actually earned for the Baldwin common stock. The charge-off for excess profits taxes amounted to $1,750,000, or $8.75 per share. Thus, before taxes, the company last year earned $57.86 per share for its $20,000,000 of common stock. This compares with an outside total of $24.56 per share earned in 1916, made up of $6.10 from the Baldwin Company itself, $4.14 from Standard Steel Works undistributed surplus, and $14.32, being the value of the new buildings constructed at Eddystone, and carried as an addition to profit and loss surplus.

Gross sales for 1917 totalled $98,263,865, as compared with $59,219,058 in 1916, the best previous record, and $13,616,163 in 1914, the poorest year. Of the total sales, $77,291,281 came from locomotive and other regular business, while $20,972,583 was derived from the completion of shell contracts and other special work. The number of locomotives produced was 2,748, as compared with 1949 in 1916, and a previous high record of 2,666 made in 1906 by the predecessor corporation.

During the past two years Baldwin has earned a total of $73.67 for its common shares. And this figure does not include any profit made by the munitions plant at Eddystone. When this plant was built to take shell contracts from the Russian Government, the Eddystone Ammunition Corporation was organ-

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ized to handle the business. According to the agreement, the Baldwin Company was to receive the plant at the conclusion of the contract, and a royalty on each shell made. Operating difficulties were encountered and a readjustment in the contract was made necessary, under which the Baldwin Company received a rental for the property in place of a shell royalty, and also received the buildings, the value of which was credited to profit and loss in the 1916 report. With the completion of the Russian shell order early last year, a new company, the Eddystone Munitions Company, was formed. This corporation took over the Eddystone plant and all the shell equipment of the Baldwin and Standard Steel concerns. At present, therefore, all the Baldwin's munition business is concentrated in the Eddystone Company, which has taken some big orders from the United States Government.

While the munitions business has heretofore been somewhat of a disappointment, there would seem to be a good chance of fair profits being made this year. And in addition, of course, the company has the buildings which, at the end of the war, can be devoted to locomotive manufacture.

Although the large earnings of the last year would seem to warrant a distribution to shareholders, who have received nothing since the 2% common rate was passed in 1915, their disposition has been taken in some quarters to mean that no dividends could be expected in the immediate future. Practically the entire surplus earnings of 1917 and the previous accumulated surplus, a total of $15,855,346, were utilized in wiping out the good-will account on the balance sheet. The balance sheet for December 31, 1916, showed capital assets, covering plant, equipment, patents, good-will, etc., of $43,766,499. The 1917 balance sheet showed a plant and equipment item of only $28,254,408, a good-will item of $899,299, and a profit and loss surplus of only $55,346. Net quick assets, however, amounted to $16,501,650, as compared with $7,475,249 the previous year, and outstanding bonds were reduced $600,000 to $9,400,000.

In spite of the small surplus now reported, however, the company is actually in much sounder financial condition than ever before. Practically all the water has been squeezed out, and the common stock is fully covered by tangible assets. The stockholders may be temporarily disappointed as to dividends, but with the present demand for railway equipment, and with the prospect of a continuance of a big demand for some time to come, it should not be long before the Baldwin Co. is justified, even on the most conservative grounds, in making some distribution.

LOOSE-WILES BISCUIT.—This company's 1917 report must have proved a more or less pleasant surprise to even its most optimistic friends. The war has been by no means the benefit to the biscuit concerns that it has to corporations engaged in many other lines of business. In 1914 and 1915 sudden and rapid increases in the costs of raw materials seriously cut into profits. The greater cost of production has since been largely offset by a readjustment of selling prices, and as a result of a steady expansion in the company's business, 1916 and 1917 each in their turn set up new high records of earnings.

Since its incorporation in 1912, the Loose-Wiles Co. has reported earnings as follows:—

Year to Dec. 31st	1917	1916	1915	1914	1913
Total income	$2,062,360	$1,057,994	$442,371	$731,177	$852,380
Deductions	*539,956	154,294	299,828	227,675	250,566
Net income	$1,522,404	$903,700	$122,543	$503,501	$601,814
Per cent earned 1st preferred stock	30.98%	18.38%	2.49%	10.07%	12.04%
Per cent earned 2nd preferred stock	58.91	27.98	....	7.67	12.59
Per cent earned common stock	12.98	5.24	....	.17	1.40

*Includes $300,000 for income and excess profits taxes.

It is rather disappointing that the reports now do not give figures as to total sales and operating expenses. The total income, however, in 1917 was nearly double that of 1916, and about 4¾ times that of 1915. Even after deducting $300,000 for excess profits taxes the balance was equivalent to 30.98% on the $4,915,000 of 7% cumulative first preferred stock, 58.91% on the $2,000,000 of 7% cumulative second preferred stock, and 12.98% on the $8,000,000 common. Indeed, the earnings available for the second preferred issue were equal to approximately 100% of the present selling price of the shares.

During the first five full years of the company's operations the average annual balance earned for the preferred stock was equal to 14.79%. The full 7% dividends have been paid on this issue since organization, and inasmuch as the balance sheet for December 31, 1917, even assuming that the common stock originally represented only good will, shows a net tangible asset value for this stock of $174 per share, it would seem to be entitled to a reasonably high investment rating. On the second preferred no dividends have been paid since February, 1915, and the accumulations now amount to about 22%. Nevertheless, the earnings for the past five years applicable to dividends on this issue are equal, on the average to 19.21%. The small amount of stock outstanding causes wide fluctuations in the percentage of earnings between good years and poor years. According to the last balance sheet the second preferred had a net tangible asset value of $183 per share. It might, therefore, seem as though steps could be taken before long to resume dividend payments, although as the president states, any such action will have to wait upon the reduction in the floating debt, which on December 31 amounted to $3,875,000. Any dividends on the common stock are probably out of the question for some time to come.

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CHESAPEAKE & OHIO.—If the average earnings for the three fiscal years ended June 30, 1917, are to be taken as a basis for dividend payments to the shareholders, as well as for Government remuneration to the railroad companies, it would seem as though there were a very tangible reason to expect that Chesapeake & Ohio will be in particular favor with investors.

For several years previous to 1915, in spite of a steady increase in the volume of business, the net earnings of this company made little or no gain. The year 1916, however, witnessed one of the largest increases in net earnings on this road of any line, and unlike most others, Chesapeake & Ohio has been fortunate in being able to retain most of these earnings through 1917.

It is worth while to consider, for a moment, the actual figures, which have been as follows:—

	Year ended Dec. 31, 1916	Year ended June 30, 1915	Year ended June 30, 1911
Gross earnings	$49,834,312	$39,464,037	$32,583,411
Total income	17,127,818	11,576,345	11,284,758
Balance after charges	7,666,880	2,663,536	3,228,285
Balance earned on stock	12.21	4.25	5.06

For the year ended December 31, 1917, it is estimated that the company will show earnings of about 10½%. In two out of the three years, therefore, whose average, under the proposed bill, will be taken as a basis of remuneration—Chesapeake & Ohio has made extraordinarily large earnings in comparison with anything it had done previous to that time.

The average earnings per share for these three years were $8.35, as against a little over $5 for the previous three years. Thus, the average to be taken as a basis of remuneration is over twice the present dividend rate, something that is true of few other railroad stocks.

Probably most people do not appreciate the fact that the 1917 earnings per share of the Chesapeake & Ohio were as large as those of no less than six other companies that are paying more in dividends, and whose shares are selling from 15 to 30 points higher than those of the Chesapeake & Ohio.

The company is, moreover, in a strong banking position, as a good part of the increase in earnings has been retained in working capital. This item rose from $5,700,000, June 30, 1915, to over $13,000,000, December 31, 1916. Cash alone advanced from $1,500,000 to $8,750,000.

GENERAL MOTORS.—The final chapter in the relations between General Motors and Chevrolet is, apparently, about to be written.

The proposition is that the General Motors shall purchase the assets of the Chevrolet Company, aside from its holdings of General Motor stock, paying therefor 282,684 shares of General Motors common stock.

At $125 per share for General Motors, at which figure it was quoted when this offer first came out, this would place a valuation of some $35,000,000 on the assets of the Chevrolet, apart from its holdings of General Motors. Deducting from this $3,000,000, as the market value of Chevrolet's holdings of United Motors, would leave a valuation of $32,000,000 for Chevrolet's own business.

This is a business that has had, as all know, a most remarkable growth. In 1915, the company produced about 12,000 cars and earned a little over $1,000,000; in 1916, production was about 90,000 cars, and the net earnings, $4,845,000. The final figures for 1917 have not been published, but the partial figures would indicate a production of 125,000 cars, and if the company made on this a profit of $50 per car, we figure that its earnings, after excess profits taxes, may have been $5,650,000.

We figured in a recent letter that General Motors' earnings, after taxes for the last five months, were at the rate of $32 per share per annum, equivalent to about $26,500,000. Adding Chevrolet's earnings to this amount would make a total of about $32,000,000 on the 1,108,000 shares of General Motors that will now have been issued.

In other words, recent earnings were, apparently, at the rate of about $29 per share on this stock on the basis of its increased capitalization.

One of the most interesting features of this proposition is the apparent change that will take place in the stock of the General Motors in the hands of the public. Of the present issue of 825,590 shares, Chevrolet has held in its treasury 450,000 shares, leaving but 375,590 outstanding in the hands of the public. With the consummation of the purchase of the Chevrolet property by the General Motors, the former will become simply a holding corporation and, presumably, will, eventually, distribute its assets.

This would mean, including the amount now to be received for its own business, a distribution to its shareholders of 732,000 shares. In other words, the public holdings of General Motors would, apparently, be increased at one stroke from 375,000 shares to 1,108,000, an increase of just about 200%.

THE PORPHYRY COPPERS.—There are two features to the reports of the "Jackling" properties for the fourth quarter of 1917. The first is what might be termed a "re-balancing of accounts." Owing to the fact that the Government had not, at the close of the third quarter, fixed a definite price on copper, there remained techincally unsold at that time, a large portion of the companies' output for the period which, according to their invariable practice, was inventoried at 13½ cents per pound.

During the fourth quarter this copper was sold. The net result is that, whereas, in the third quarter the price taken as a basis for figuring profits was necessarily below the current market price, in the fourth quarter, in most cases, it was above it.

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The average of the earnings of these two quarters would, therefore, be not far from the earning power of these companies, under present conditions. On this basis it is of interest to note that the earnings for the last six months for Utah Copper were at the rate of $15 per share per annum; Chino, $7.60; Ray, $4; Nevada Consolidated, $3.80.

The second feature of these reports was the perpendicular rise in cost. When the cost of producing a pound of copper at such a property as the Utah Copper rises, in one year, from 7 cents to 12¾ cents per pound, it is eloquent of the tremendous change that has overtaken the whole industry, for this type of property has, in the past, had an exceptional control over its cost of production in the face of ordinary obstacles.

As to the individual companies:—

Utah Copper produced as usual in the fourth quarter of the year somewhat less than in the third—50,802,000 pounds, against 54,762,000. The sum of the four quarters' earnings was just a little under $30,000,000, or about $19 per share, as compared with $24.50 in 1916.

There may be some further adjustment of this figure on account of excess profits taxes. The gross production of copper for the year showed a gain of 10,000,000 pounds, from 196,000,000 to 206,000,000.

It will be remembered that the company has further extensions of its milling plant underway, so that, if labor conditions permit, a further increase may be expected during the current year.

Chino had a gross output in 1917 of 81,915,000 pounds, as against a net output in 1916 of 72,319,000, while its net profit, subject to further adjustment, was equal to $11.70 a share, as against $14.76 in 1916; $7.95 in 1915, and $3.70 in 1914.

Late in the fourth quarter a new section of the mill, No. 6, was put in commission. There is still another section to go into commission.

Ray made the largest gain of the group with a gross output of 86,796,000 pounds, as against a net output of 74,983,000. In spite of rapidly rising costs, its net earnings for the year were but a little under those of 1916—$6.60 as against $7.66, and compare with $2.92 in 1915 and $1.64 in 1914.

Nevada Consolidated was the only one of the group to show a diminution of production, its 1917 figures of 82,039,000 pounds comparing with 90,735,000 in 1916. This difference was due partly to a somewhat lower grade of ore but chiefly to the greater tonnage of ore and concentrates treated by the Nevada Cons. for the Consolidated Copper Mines. This smelting situation has been the restrictive factor as regards Nevada Consolidated's own production; total smelter output has been approximately the same, but the proportion of custom work has increased.

This is the only one of the group that smelts its own concentrates, and the tie-up in freight resulted in an unusually large amount of copper in transit, during the latter part of the year, which, naturally, made for a lower average price than the others received.

Total earnings for the year were, approximately, $5.30 per share, as against $7.72 in 1916; $2.95 in 1915, and 88 cents in 1914.

WALWORTH MANUFACTURING COMPANY.—The Walworth Manufacturing Co. has this week declared an initial quarterly dividend on its common stock of 30 cents per share, thus placing the stock of this Massachusetts corporation on an annual basis of $1.20 per share. While final figures for the year 1917 are not yet available, earnings for the common stock, after deductions of taxes and prior charges, are estimated at $5 per share.

These earnings are most satisfactory in view of the fact that no earnings from the Kewanee Plant for the first half year accrued to the Walworth Co., and this new Western division represents fully half the enlarged company's earning capacity.

The recent dividend declaration might seem ultra-conservative but the company is still expanding, having recently taken over a new distributing branch at Seattle. This additional outlet for Walworth products should prove a substantial addition to profits.

The company also has to provide a large sum in cash to meet the excess profits taxes.

These cash requirements should be available, however, out of current earnings, and after the turn of the half year the company's treasury position should better itself very rapidly.

Forward business is coming in in large volume and we anticipate another year at least of large profits.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 773 October 4, 1918

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THE GENERAL MARKET.—In glancing over the daily fluctuations for the last ten days, one is struck by the fact that there is no clear-cut tendency; the gains and losses are about equally divided. This can mean but one thing—that the market has set itself in earnest to adjust itself to peace conditions and peace, as we have previously remarked, means very different things to different companies. From now on, it is likely that this tendency will be more and more marked. Before becoming too bearish on what have been known as "war" stocks, there are one or two things it is well to remember. For one thing, all of these companies are in an immensely better position than at the beginning of the war period. Many have partially or entirely paid off their funded indebtedness, all are much stronger in working capital. Even assuming that considerable shrinkage will be suffered in the inventory item, which—in most cases—comprises a large percentage of this working capital, the asset value of these stocks will still be decidedly greater than before. Secondly, these companies have been earning, for a year or two past, one-quarter to one-half of what the stocks have been selling for. In normal peace times, a stock would sell for ten times its average annual earnings. These companies could, therefore, earn very much less and still have their stocks worth as much. Then there are quite a few companies that will not suffer and some that will even benefit from peace conditions. Still, the fact remains that war has been the stimulus under which the large majority of industrial companies have made extraordinary earnings, and peace means the reverse of these conditions.

There are tremendous problems ahead of us for which, apparently, no thought is being taken, or adequate provision being made. It looks as though this country would find itself as unprepared for peace as it was for war. Undoubtedly, American resourcefulness will find a solution to these peace problems as it did to war, but a measurable period of readjustment seems inevitable.

It cannot be doubted that, eventually, there must come a drastic reduction in the price both of commodities and labor. To be sure, a limit has been set to the price of most of the important raw commodities, so that readjustment will not have to be so severe as would otherwise have been necessary, but even these fixed prices have, necessarily, been at very much above normal figures; no limit has been set to the price of labor. The fact might as well be frankly faced, that falling commodity and labor markets and rising stock markets do not go hand in hand.

To be sure, there has already been considerable readjustment, and financial conditions are such that any wide open break is most unlikely, but it is still true that, after allowing for increases in asset value, many industrial stocks are selling for quite a little above normal pre-war prices.

Under the circumstances, one would, naturally, turn to the railroads, which are selling below the average prices, especially as with the increase in rates and the probability of decreasing costs, their earnings will continue to show marked improvement. Even here, however, one cannot but entertain grave doubts, for the Government cannot retain these indefinitely, and under the proposed Government contract there is no telling in just what condition the properties and businesses will be returned to their owners, or to what extent Government control will be maintained.

Perhaps the foregoing will give rather a more "bearish" impression than is intended to be conveyed. Unquestionably, many businesses will be well worth owning on a peace basis, at present prices. We have the greatest confidence in American ability ultimately to adjust itself to any conditions, but it would seem to us foolish to shut one's eyes to the fact that a certain amount of readjustment is inevitable. The problem before investors and speculators might, perhaps, be summed up in one word—discrimination.

CHICAGO & NORTHWESTERN.—The contract between this company and the Government for the operation of the road during the period of Government control, has been approved and submitted for signature. This contract allows the Chicago & Northwestern an annual compensation of $23,364,028, based on the average net earnings for the three years ended June 30, 1917. In addition to this sum, which is guaranteed by the Government, the company is allowed to keep its "other income" derived from outside investments. In 1917 the revenue from such a source amounted to $2,670,195.

Assuming that "other income" continues at the rate of about $2,600,000 a year, the company should have approximately $26,000,000 with which to meet fixed charges, war taxes, and dividends. Last year's charges were $9,400,000. War taxes were not separated from other taxes, but allowing $750,000 for such taxes and other corporate expenses, there should remain a balance of $15,800,000. The 8% dividends on $22,395,120 of preferred stock require close to $1,800,000 annually, leaving $14,000,000 for the $145,223,719 of common stock, or the equivalent of 9.6%. Some changes would not be surprising in "other

income" or in taxes, but at all events these are not likely to be of great importance and the Northwestern would appear to be assured at a minimum of 9% for its common, as against a 7% dividend requirement.

In the year ended December 31, 1917, the Northwestern reported earnings of 10.47% for its common, and in the 1916 year as high as 14.12%. For the past ten years, however, the average annual percentage earned for the junior stock issue has been 9.57%, so that it is difficult to see how this company is going to be any worse off under Government operation than under normal conditions.

One of the most interesting features in connection with the standard return as announced for the Northwestern is the fact that it is only a few thousand dollars different from previous estimates. In the absence, therefore, of official figures in the case of other railroads, it would seem that fairly accurate estimates can be made.

CHANDLER MOTOR.—Chandler Motor in its current fiscal year to December 31 should produce between 8,500 and 9,000 passenger cars. This would compare with a production in 1917 of 15,000 cars, a reduction of 40%.

To take the place of the reduction in the manufacture of pleasure cars, the company is now working on a $10,000,000 Government order for tractors. Of this order approximately 1,000 tractors will be delivered during 1918.

As a result, it is expected that in the December 31 year, Chandler Motor will show a balance for its $7,000,000 capital stock of at least $20 a share after increased Federal taxes.

These earnings would compare with profits on the same amount of stock in 1917 of 34.03% and 24.52% in 1916.

In other words, during the 1916, 1917 and 1918 fiscal years, Chandler Motor promises to earn close to $80 a share, of which $32 a share will be distributed in dividends, leaving between $47 and $48 a share of undivided profits.

It is worth noting that Chandler Motor, with its small capitalization, requires earnings of but $840,000 to maintain the present $12 dividend on the stock. This balance it is believed can be easily earned in 1919 from the production of tractors for Government account, and from the sale of parts, so that even in the event that the company should turn out no cars at all next year, it could earn some balance above the present dividend rate.

Chandler Motor is borrowing no money whatever from the banks and has a present cash balance of approximately $2,000,000.

While the asset value of the stock does not exceed the present market price, it is interesting to note that the company with quick assets equal to $55 a share, with absence of any floating debt and a liberal cash balance, is in a position where with the return of peace it should be able to do a substantial and profitable automobile business.

The company has kept entirely free from war work save as far as the manufacture of Government tractors is concerned.

The 1917 production of 15,000 cars by no means measures the present capacity of the factories.

AMERICAN TELEPHONE & TELEGRAPH.—It is a bit singular that the financial community has not raised the same question regarding American Telephone and Western Union that it has so repeatedly asked itself regarding railroads.

This is the question as to whether these two great wire utilities will go back again to private operation at the expiration of the war.

Possibly because the bill authorizing Government control of the wire systems has been drawn to cover the period of the war while railroad control is to persist for the length of the war and twenty-one months thereafter it has been rather generally assumed that permanent Government control of the railroads was far more likely than continued Government operation of the telephone and telegraph lines.

In the opinion of very good judges, however, this is not so obvious an inference as might appear superficially.

For one thing there has been for some years a strong and probably growing sentiment in Washington in favor of Government control of the wire companies. This sentiment was crystalized by the war and under the stress of war conditions was able to capitalize its opportunity to secure Government control.

There are good reasons for the belief that the Government in handling the wire companies through the post-office department will do so in such a way as to popularize Government control and build up a basis in popular sentiment for permanent retention of these utilities.

It is also to be remembered that the telephone and telegraph companies have been the only strictly national utilities in the country. Government taking over of the railroads was necessary to create a national railroad. But the American Telephone Company was a national system when Government control intervened. All that the war has done, therefore, has been to change control of this national system from private to Government hands. Public sentiment and local pride might conceivably resent permanent retention of the railroads with their maze of sectional and local interests. But this objection is hardly likely to be raised regarding the telephone and telegraph lines which in practically every other nation have long been nationalized.

If the belief of sound authorities that the Government will retain the wire companies is borne out in the days following the war then the securities of American Telephone, the Bell System, may be expected

to take on the form of Government guaranteed bonds and stock. For it is very probable that the contract which the Government makes with the American Telephone Company will be on a basis of strict justice and will recognize the fundamentals of the Bell business, which are its maintenance and depreciation charge, and the fact that the present interest and the 8% dividend represent a return of but about 4¾% on the property investment. In other words it is entirely logical to expect that the Government compensation granted American Telephone will fully recognize the present 8% dividend, which has been in force for nearly twelve years.

ANACONDA has declared—as expected—its regular quarterly dividend at the rate of $8 per share and the stock, as is true of most of the coppers, has been in good demand during an irregular market.

In the first 9 months of this year, the company has produced, approximately, 230,000,000 pounds of copper, as against 189,000,000 in the same period of last year, the difference being due, of course, to the interruption in 1917, owing to labor troubles. In 1916, the output during the same period was 250,000,000 pounds.

It seems probable that the company will this year produce in the vicinity of 300,000,000 pounds, as against 239,000,000 in 1917, and 307,000,000 in 1916.

The company does not publish quarterly statements, so that estimates as to its annual costs are scarcely more than guess work. Last year we estimate that its costs was about 11¾ cent per pound. If, during the current year, after crediting income from all operations other than the production of copper, it can keep within 16 cents per pound, it would be a very creditable performance. This would give the company a profit of 9 cents per pound or, approximately, $27,000,000.

In addition to this, it would have an income of about $2,500,000 from its holdings of Inspiration and Greene-Cananea, or a total income of $29,500,000. This, of course, is before considering the item of taxes and ore depletion.

As there has been, as yet, by no means, any agreement as to allowance for ore depletion, it seems hardly worth while to attempt any estimate as to taxes.

It may be pointed out, however, that dividends of $8 per share on this company's stock call for about $18,650,000. It would appear, therefore, that there would be a margin of nearly $11,000,000 between the estimated earnings and dividend requirements, which it would seem should cover very generously all allowances for ore depletion and taxes.

That in the face of some irregularity in the stock market in the process of adjusting itself to a "peace" basis, there should be a consistent demand for this, as for other copper stocks, is not to be wondered at when one considers that on a normal output of around 300,000,000 pounds per year, this company would require a profit of less than 6 cents per pound to maintain the present rate of dividends. The stock would, doubtless, be worth its present figure even on a $6 dividend basis. To pay this would require a profit of but about 4 cents per pound.

WESTINGHOUSE.—Since January 1 Westinghouse Electric common has fluctuated within about a 6 point radius. The stock has been dull and featureless and has practically ignored the very strong record of earnings which is being made.

Westinghouse is doing an astonishing volume of business. It is understood that sales billed out are running at the rate of over $140,000,000 per annum, against actual shipments in the year to March 31 last of $95,735,407, a prospective gain of 47%.

If the business of the new Essington plant and Westinghouse's subsidiary, the New England Westinghouse Co. were to be included, gross sales for the March 31 year would, undoubtedly, reach a total of over $170,000,000.

On the assumption of $140,000,000 gross, however, and after allowing for the great increase in war taxes which the company will have to meet, it is considered probable that final net profits for the $70,813,950 common in the 1919 fiscal year will be fully as large as the $15,405,680 balance for dividends in the 12 months to March 31 last.

That would mean that in 4 years Westinghouse Electric would have earned a balance for its common stock of slightly more than 88%, or $44 per share, which is the approximate current market price of the shares.

Earnings for a 4-year period would compare as follows:—

	1919	1918	1917	1916
Per cent. common	21.5%	21.3%	25.1%	20.4%

It is, of course, obvious that a large share of Westinghouse's present record business represents war demand for its products. The company is making a variety of shells both for the American and British Governments.

But when the war is over it is probable that Westinghouse will experience an excellent peace demand for its electrical products. That normal domestic demand for electrical apparatus is practically impossible of being satisfied is shown by the condition of its turbine department which is so congested with Government work that it can take no domestic business for nearly twenty-four months to come.

One element of doubt in the Westinghouse situation has been the existence of a large floating debt.

On March 31 last Chariman Tripp placed the total of floating obligations at $30,186,051, a figure which included $2,433,551 of Liberty Loan subscriptions and $52,500 of notes due in 1924.

Since that date floating debt has been reduced to about $25,000,000 and should not total much more than $17,000,000 by March 31 next unless present plans are unexpectedly changed.

The $15,000,000 one-year notes coming due on February 1 next will not be extended, but will be transferred into direct bank loans and probably reduced during 1919.

Westinghouse Electric, with its bank and loan obligations down to $17,000,000, ought to have on March 31 next a net working capital of $60,000,000. This would be sufficient to offset at par the $6,396,000 bonds and $3,998,700 preferred, leaving a balance of about $35 per share for the common stock.

TORRINGTON.—The common stock of this company, which enjoyed considerable activity and popularity during the war market of 1916, has maintained a large share of its advance in spite of the fact that no official statements of earnings of any value have been issued. Heretofore the Torrington annual report has consisted solely of a statement of interest and dividends received by the holding company from the operating companies, and it was impossible to get any accurate figures regarding the operations of the subsidiaries.

Now for the first time an income account is published for the operating concerns, although it does not include two British and one South American subsidiary whose final reports have not yet been received. For the year ended June 30, 1918, net profits after administration expenses and interest charges were $1,517,326. From this should be deducted $510,899 reserved for income and excess profits taxes, $7,200 for subsidiary dividends, and $70,000 for the 7% dividends on $1,000,000 of preferred stock, leaving a balance of $929,228 applicable to the 140,000 shares of common stock of Torrington Co. of Maine, or $6.64 per share.

Net quick assets as of June 30 last totalled $3,532,405, which would be sufficient to cover the preferred stock at par and leave $18 per share for the common stock. Real estate and investments in foreign subsidiaries less outstanding stock of said subsidiaries are given a book value of $2,778,456, or $20 a share for the common, giving that issue a total actual asset value of $38 per share.

At the present time there are two Torrington companies, one incorporated in Connecticut and one in Maine. The Connecticut Co. was organized in 1917 to take over all the assets of the Maine Co. Its capital stock consists of $1,000,000 of 7% cumulative preferred and $7,000,000 of common, par $25. The Maine Co. had outstanding $1,000,000 of 7% cumulative preferred and $3,500,000 of common, par $25. Its assets consist solely of the stock of the Connecticut corporation. The preferred stock has already been almost entirely exchanged for the Connecticut Co. preferred stock and it is the intention to exchange the common stock, but so far, it is understood, objections from Washington have held the matter up.

Dividends of $4 annually are now being paid on the common stock of the Maine Co. Even after liberal tax allowance, earnings for the 1918 year amounted to $6.64 per share, and if the British and Argentine subsidiaries were included, share profits would undoubtedly have been larger. Orders on hand now are said to be sufficient to keep the company busy at capacity for the next twelve months.

EMERSON BRANTINGHAM.—Resumption of dividends at the full 7% rate by Emerson Brantingham on its $12,170,500 preferred is the reflection of the sharp improvement in earnings during the current fiscal year which ends October 31 next.

Emerson Brantingham has been through a protracted lean period and preferred dividends have been suspended since August, 1914.

In the 1917 fiscal year the balance of $924,236 after interest on floating debt and depreciation was more than sufficient to meet the $851,000 required for preferred dividends. For three years prior to that earnings were extremely unsatisfactory.

In the current fiscal year it is expected that a preferred dividend balance of $1,400,000 can be shown.

Emerson Brantingham manufactures a variety of agricultural implements. Its business is likely to be helped by peace and there is considered to be a good chance that the preferred dividends can be continued.

The cleaning up of the 28% of accrued dividends on the preferred is a matter that will have to wait until the company has further strengthened its financial position.

UNITED STATES SMELTING.—In rather pleasing contrast to the six months' results of the American Smelting & Refining Co. are the earnings for the nine months to September 30 as reported by the United States Smelting Co.

After allowing $1,997,413 for depreciation, depletion, exploration, and Federal taxes, the balance remaining (with September earnings estimated) amounted to approximate y $3,674,331, or the equivalent of $6.83 per share for the common stock after deducting nine months' dividend requirements on the preferred stock. This is at the annual rate of $9.11 per share, or approximately the same rate as reported for the first six months of this year.

During the first half year, however, the company reported a net of $2,458,839 after reserves of $896,447. For the nine months the deduction for reserves totalled $1,997,413. In other words, in the last quarter the management has charged off more than double what it charged off in the first two quarters of 1918. Had the deductions for depreciation, etc., been at the same rate from July to September, as from January to June, earnings for the nine months would have been at the annual rate of $11.60 per share for the common stock.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—It is doubtful if American investors and speculators were ever before confronted with such a complex situation. It is, by no means, so simple as when the market re-opened after the outbreak of war. Then it quickly became apparent that we were in for a period of tremendous, if artificial, stimulation, in which practically all industries were to share. Now we are confronted by the anticipation of peace, but this does not at all mean the reverse of war in the valuation of all market securities. In the first place, most companies are in a very different position from what they were at the beginning of the war period; secondly, at different times in the last two years there has been liquidation which has corrected many of the market excesses in the war period, perhaps, in some cases, over-corrected; thirdly, while the margin of profit may diminish, the momentum acquired will continue for some little time and many companies will continue to do a large volume of business at a reasonable profit; a few may even benefit. There are, nevertheless, some companies that reported an unduly large profit under war's stimulus whose business will probably fall away rapidly. So we have, indeed, a confused situation, where no general rule can be laid down. When some stocks gain, in a few weeks, 25 to 50 points, while others, generally considered market leaders, remain stationary, it is, evidently, useless to speak of any general trend. It is altogether likely that these diverse influences will continue, and the only thing to do is to study the situation as affecting the individual issues.

We have been much interested to read this week an article from the "Financial Chronicle" describing the financial and industrial situation, published just fifty years ago—three years after the close of the Civil War. It bears so aptly on what may be expected after the close of this struggle that we quote from it, in part, as follows:—

"The inactivity of trade experienced throughout the United States is but a counterpart of what exists in nearly every commercial country. A deep-rooted depression has set in everywhere. There is no real distress, labor being, as a rule, fairly employed; yet industry nowhere exhibits energy or offers inducements to an extension of operations. A universal dearness renders commodities and manufactures costly of production and makes it impossible to market them at an average profit . . . . In our own market money is lending at unprecedently low rates and the special facility of borrowing has induced large speculative operations by capitalists, resulting in unusually high prices for stocks and bonds."

After pointing out that not only this country, but the whole civilized world had been passing through a series of wars and that this was, undoubtedly, the cause of the business depression, the article goes on to say:—

"The fact to be most prominently noted, in connection with these causes, is that they have very largely reduced the proportion of producers to consumers in both the Old World and the New. The natural result of this condition of things would be to exact an increased amount of labor from those laborers who remain and to compel some to become producers who had been non-producers. Most unfortunately, however, the former of these results has not been realized. By one of those perverse freaks which deprive society of much-needed relief, the working classes have organized influential combinations for exacting unnaturally high wages and, still worse, for curtailing the hours of labor; so that factitious restrictions have been imposed upon production and the cost of products has been unnecessarily increased."

So much greater has been this catastrophe that former precedents are unsafe to follow, but it does seem reasonable to believe that the rate for money will gradually fall. This and the consequently higher valuation of earning power should be great sustaining influences. In other words, a drop in earning capacity will not, within certain limits, be necessarily accompanied by a corresponding drop in the price of securities.

At the moment, there is enthusiasm over what must be made an over-subscription to the Liberty Loan, and the prospect of nearby victory. We are not prepared to say that this movement may not go quite a little further. The relief from war's tension would be tremendous and victory, after years of suffering, would justify enthusiasm if anything would.

We remain of the opinion, however, that this movement is not likely to include all classes of stocks, but that the market will be a specialty affair, requiring the greatest discrimination.

CHINO COPPER.—With the large majority of mining companies experiencing great difficulty in maintaining their output, the Chino's figure for September of 7,936,000 pounds has scarcely received the attention it deserves. This compares with an output in the previous month of but a little over 5,000,000 pounds, is much the largest since last March, and with one exception only, the largest monthly output in the company's history.

For the last two years, Chino has been engaged in quite an extensive construction program, whose results are now, apparently, beginning to be felt. In 1916, the company had made an increase in its power plant and various other minor additions and improvements, but in that year it was decided to make a definite addition to its milling capacity. Up to that time, the company had operated with its original floor space, consisting of five sections. It was decided to add two more—one of these and a part of the other to supplement the original mill equipment by an extensive installation of fine grinding machinery, and the other part of the second to treat the partially oxidized ore.

In pursuance of this program, Chino has spent, in the last two years, a net amount, after depreciation, of over $2,000,000, and last year drew on its net quick assets to the extent of $867,000.

With these new sections in full operation, the company should have a milling capacity of 12,000 tons per day, against an average of a little under 10,000 tons treated last year.

This should mean a production of about 92,500,000 pounds of copper a year, as against something under 80,000,000 produced last year. A net profit on such an output of even 6-cents per pound would result in earnings of over $5 per share.

BETHLEHEM STEEL.—Bethlehem Steel, selling at $70 per share and paying 10%, nets a return of over 14%. The inference is, plainly, that it is not the expectation that this rate of dividends will be continued indefinitely.

Before jumping to such a conclusion, however, it might be well to consider a few facts in regard to this company. Let us, to go to an extreme, disregard entirely the results obtained in the last three years of war profits, and apply the company's present fixed charges to the earnings that it had shown previous to that time—adding, of course, its present income from other sources.

We will take as an example 1914, probably the worst year that the American steel industry had seen for a decade up to that time. On this basis, the proposition would work out somewhat as follows—

1914, Profit from operations	$9,378,000
1917, Income from other sources	2,976,000
Total	$12,354,000
1917, Fixed charges	8,747,000
Balance	$3,607,000
Dividends on 8% preferred	2,400,000
	$1,207,000
Dividends on ordinary preferred stock	1,050,000
Surplus	$157,000

This result, to be sure, does not make any allowance for additional depreciation, amortization, etc., for which $1,847,000 was allowed in 1914. Nor does it, naturally, make any allowance for taxes on the proposed new basis, as any such earnings as these would, unquestionably, be exempt from war taxation.

The above would indicate, however, that even if the company were suddenly to drop back to its pre-war level of operating profits, it would earn its present interest charges and dividends on the preferred stock.

To pay the present rate of dividends on the common stock would require $6,000,000 additional. In the three years—1915, 1916 and 1917—the company earned and reinvested in its property, above dividends paid, approximately, $74,000,000, a sum which will, presumably, be increased to around $90,000,000 in 1918. A profit of even 10% on this additional reinvested capital, added to pre-war rate of earnings, would be $9,000,000, sufficient to pay 10% on the common, and allow a fair amount for additional depreciation on a reduced volume of operation.

SWIFT & COMPANY.—Swift & Company, during recent months, has been engaged in two very interesting pieces of financing, which amount in substance to distribution of part of its assets among the owners of Swift's $150,000,000 stock.

The first of these moves was announced in August, when Swift stockholders were given the right to turn in 15% of their Swift stock and take stock of Swift Compania Internacional, Ltd. This meant that the holder of 100 shares of Swift turned in 15 shares of Swift stock par $100 and received in exchange 100 shares of Internacional stock par $15. This Internacional stock has since sold at 33, a profit on the exchange figuring Swift at 110 of $1,650 per 100 shares of Swift. The Swift management is on record as stating that the dividend return on Internacional shares would at least equal the amount received in dividends on Swift stock surrendered.

The second move in distribution of Swift assets occurred this week when Swift stockholders received word that by turning in 10% of their stock they might receive in exchange shares of Libby, McNeill & Libby. This in turn means that the owner of 100 shares of Swift upon surrendering 10 shares will be given 100 shares of Libby, McNeill & Libby, par $10.

Libby, McNeill & Libby is widely known in both continents as a canner and distributor of food products, including meats, vegetables and fruits

It is understood that Swift & Company itself did not own all of the $8,000,000 stock of Libby, McNeill & Libby, a large portion, if not an actual majority, being owned by the Swift family itself.

Before the offer of exchange was made, Libby, McNeill & Libby capitalized a portion of its $10,708,878 surplus, issuing $4,800,000 additional stock, bringing its issued stock up to $12,800,000, or 1,280,000 shares of $10 par value each.

The interesting part of these two pieces of financing is that it registers the disposition of Swift & Co. to distribute some of its assets. The Swift business has grown to such an enormous volume, nearly one billion of dollars, that it is not only tending to become unwieldy, but has created a situation inviting criticism and political attack.

By divesting itself of its Argentine and Libby, McNeill & Libby subsidiaries, Swift has reduced its volume of gross sales by nearly $200,000,000, or 20%.

Incidentally, it is believed that in time both Swift Internacional and Libby, McNeill & Libby will prove very profitable investments for Swift shareholders to retain.

STANDARD MILLING.—Earnings of the Standard Milling Company for the year ended August 31, 1918, established a new high record, although the balance available for dividends fell considerably below previous estimates.

Net profits after all deductions amounted to $1,931,227, as compared with $1,668,298 in the 1917 fiscal period and $1,437,845 in 1916. As applied to the average amount of common stock outstanding during the year the 1917 net was equal to $31.26 per share, as against $27.43 in 1917, and $27.60 the preceding year.

In the nine months to May 31, the Standard Milling Company was reported to have earned a net of $2,700,000, and it was predicted that the final balance for the junior stock issue would come pretty close to $50 per share. However, the reserve charged against earnings in the 1918 year was $1,400,000 greater than in the 1917 period. It is not stated how large a portion of this is for taxes, but at all events it would seem that an exceedingly liberal allowance had been made. And the sum of $1,400,000 is itself equal to over $25 per share in the company's common stock. It is to extra heavy charges, therefore, that the relatively small share balance revealed in the report is due.

The company's financial condition is unusually strong. As of August 31 last, net working capital stood at $9,521,657, an increase of over $2,000,000 above the 1917 figure. A year ago there was a floating debt of $2,530,000, all of which has now been retired. The improvement in the working capital position during recent years is shown in the following tabulation:—

	1918	1917	1916	1915	1914
Quick assets	$10,380,315	$10,462,901	$8,081,614	$5,328,092	$5,145,703
Quick liabilities	858,658	3,068,807	3,140,899	1,492,340	1,909,045
Working capital.....	9,521,657	7,394,094	4,904,715	3,835,752	3,236,658
Bonds	4,714,000	5,347,000	5,392,000	5,081,000	5,075,000

In five years working capital has increased 200%. Not till 1917 were net quick assets sufficient to cover the outstanding bonds. They will now wholly cover the bonds and leave $74 per share for the $6,488,000 of preferred stock. Plants are given a book value of $19,254,574, so that after covering the preferred stock at par the $5,573,042 common has a tangible asset value of approximately $314 per share.

Standard Milling has, of course, benefited considerably from war conditions, which have enhanced the prosperity of all food producing concerns. During the year just ended 10% dividends were paid on the common stock, 6% in cash and 4% in stock. In 1917 a total of 8% was paid, in 1916, 5%; in 1915 and 1914, 3%; and in 1913 and 1912, 2%. But it should not be inferred that the corporation's present splendid condition is entirely due to the war and that under normal conditions it cannot make much money. From 1908 to 1913 inclusive, the average annual share profits for the common stock were $6.65, and a good deal of the company's present prosperity can be traced to the conservatism of the management in the matter of dividend distributions during those years. It seems to be generally agreed that the food-producers will have good business for several years after the ending of the war, and Standard Milling should be in a position to obtain its full share of this business.

WESTERN UNION.—The contract which has just been concluded between Western Union and the Government is a very satisfactory recognition on the part of Government officials of the great property values which the company possesses.

In substance the Government contract assures to Western Union net earnings for its stock of $11,500,000 per annum, of which $8,000,000 will be paid by the Government as rental of land lines and $3,500,000 will be derived from net profits of the cable system and from income on the $16,000,000, or $17,000,000 of investments, which the company is carrying in its treasury.

The only obligation against this $11,500,000 net income for the stock is the possibility that $1,000,000 per annum may be required for construction purposes. The company's land line liability for new construction is, however, specificially limited to $1,000,000 per annum, any sums above that amount to be advanced by the Government.

The $11,500,000 net for its nearly $100,000,000 stock is equivalent to 11½%, making the 7% dividend appear entirely safe. In fact, in time there is no good reason why Western Union should not pay an annual extra of 1 or 2% out of its cable earnings, which is the one department of its business that the Government has not taken over and which because of delicate foreign and international complications, it probably cannot take over.

In this respect Western Union differs from American Telephone. All of the physical property of American Telephone is now under Government control, whereas Western Union will continue to operate its eight Trans-Atlantic cables.

It is probable that when the war is over and it is again possible to lay Trans-Atlantic cables, Western Union will very materially expand its cable facilities. In fact, with the Government directly interested in the land line business and with the general disposition of the Washington authorities to bind the United States to closer relations with the rest of the world, it is inevitable that this country will as rapidly as possible free itself from the indirect avenues of communication which it has been obliged to adopt in times past to reach such foreign countries as Russia, South America and other parts of the world.

One purpose Western Union has had in mind in accumulating its large balance of treasury securities has been the desire to have funds available when the time came to put into new cables. These treasury securities are readily marketable and could be sold in most cases to advantage.

As Western Union is shaping up, it would seem that in years to come its stockholders might reasonably look forward to a continuance of Government operation of the land lines with a guarantee equal to the present 7% dividend on their stock and with a steadily growing cable business, the net profits from which [illegible] lines, should not be less than they are today.

RAILWAY STEEL SPRING.—There has been a disposition in the last few weeks to classify Railway Steel Spring common as distinctly a war stock. It is difficult to give any sound arguments supporting this hypothesis. Railway Steel Spring is essentially a peace stock to the same extent that other equipment companies are peace propositions. Its business at present is confined entirely to the production of normal lines of domestic products. The Government is, of course, its largest customer, but this same remark applies with equal force to American Locomotive or American Car & Foundry.

It is confidently believed by those who are in close touch with Railway Steel Spring's affairs that the company will earn in the fiscal year to December 31, 1918, at least as much as the 32.3% accumulated for the $13,500,000 common in 1917 and this after a very considerable increase in the reserve for taxes.

Back in 1911 Railway Steel Spring had $7,172,000 bonds. Since the first of October the last of its bonds has been retired, having been called for payment in cash, leaving the company entirely free from bonded debt. Saving in interest and sinking fund through cancellation of its bonds amounts to $483,000 per annum, a sum equivalent to 3½% on the common.

It is believed that when the tax law is definitely settled and the company can estimate with some degree of confidence the limit of its liability for taxes for 1918, that the distribution on the common will be increased above the present $5 rate, perhaps to a $7 basis.

Railway Steel Spring has built up a very handsome export business during the war and it is expected that this can be maintained and further increased in times of peace.

AMERICAN CAR & FOUNDRY.—On October 30 American Car & Foundry will have completed the first of its fiscal year, which began May 1. The company is handling in the 1918–1919 fiscal period, the greatest volume of gross business of any year in its history, and net profits will naturally be somewhat in excess of the 30.6% earned on the $30,000,000 common stock in the April 30 financial period. Even after deduction of greatly increased excess profits tax, it is believed that American Car & Foundry should earn somewhat in excess of last year on its common stock.

On April 30 last the company had a common dividend reserve of $4,800,000, equal to two years' dividends at the rate of 8% on the common It is probable that this fiscal year an additional reserve of $2,400,000 will be set up, so that by the end of next April the company promises to have a reserve for common dividends of $7,200,000, a sum equal to three years' dividends at the present 8% rate. In other words, if the company elected to charge common dividends against this reserve it could go on distributing at the 8% rate through April 30, 1922.

American Car has never capitalized any part of its great prosperity during the past three years and it may well be doubted, with its conservative traditions, that it will do so. On the other hand, it seems logical to expect that the management, in its effort to stabilize the common dividend, will utilize this reserve fund in case of necessity. In other words, if earnings should decline in the period following the war, the company could very well continue to pay 8% for three or four years, using cash for this purpose that would not be required for working capital. In other words, the company, after the war, promises to have a working capital somewhat in excess of its actual requirements and could very properly utilize a portion of its unneeded cash toward a sustained 8% dividend on the common stock.

It should not be assumed from the above that American Car & Foundry is likely to experience so serious a decline in the earnings for the common after the war as to jeopardize its ability to earn for some years to come the present 8% dividend. Even when its war business is finished American Car & Foundry should have for several years all the equipment work it can handle.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 779 November 15, 1918

THE GENERAL MARKET.—There has never, perhaps, been a time previous to this when conditions have been so confused and complex; when it was so difficult to make any definite statements or predictions. There is nothing to be gained by attempting to gloss over the facts. For the last four years we have been living in a period of great inflation. It is neither possible nor desirable to continue. For a year and a half, it has been only a question of production; price has been wholly a secondary consideration. Now we must gradually come down to a peace basis, which means a competitive basis. This means, in plain English, a steady lowering of the price of both goods and labor. This process is, indeed, even at this early date already apparent. Some of the plants engaged purely on war work have already discharged their employees. A certain amount of shifting of labor is unavoidable, just as it was at the beginning of the war. Nevertheless, there will be plenty of work to be done, and while the new jobs will pay less than the old, there will be the compensation that, in time, the cost of living will also be reduced. The loss to business will come, not so much in the cancellation of contracts, as in the inevitable confusion and time lost in getting onto a peace basis. Nevertheless, if the subject is approached courageously, there need be no discouragement or demoralization. Indeed, while a certain amount of unsettlement is to be expected, there are several great factors that go far toward instilling confidence.

First, we should place in importance the American ability to adapt itself to new conditions. This ability was exhibited in extreme measure in adjusting ourselves to a war basis. The adjustment to a peace basis will, perhaps, be more complex, but there is no reason to doubt that all obstacles will be surmounted.

Secondly, we are and shall remain a great creditor nation; something that we have never been before.

Third, the demand for our resources, though different in kind, will be as great in peace as in war; if not actually the first in potential resources, this nation is certainly the first in available resources.

Fourth, aside from the wealth and material advantages gained, many lessons have been learned that should be employed to advantage. We have witnessed the great benefit of co-operation and unified control as compared with wasteful competition and unscientific repression.

Fifth, the larger corporations are in splendid financial condition to go through with any limited period of adjustment.

Sixth, the economic value of our great corporations have been fully demonstrated. The tremendous part that they have served in the winning of the war should, it would seem, silence any demagogic attempt at trust baiting.

The great outstanding feature is that the world has, in a day, definitely turned its main efforts from destruction to construction. The world, instead of growing poorer, will again begin to accumulate wealth. This is not saying that the markets have, necessarily, measured the tremendous loss that has taken place, but at least the leak has been stopped.

Coming down to a more definite consideration of market conditions, it is to be remembered that much of the adjustment to a peace basis has already been discounted; certainly, 50%; possibly, 75%.

It is also true that the market will probably discount, in a month, what the business world will take six months or a year to accomplish.

The proposed modification of the tax bill, announced this morning, is of the highest importance.

From an investment standpoint, the purchase of securities of demonstrated value is entirely advisable. Speculatively, we believe the best attitude to assume is to be in a position to take advantage of any opportunities that may offer themselves.

OUTLOOK FOR SOFT COAL.—The war's termination presents a highly complex situation in the bituminous coal industry of the United States.

War pressure has effected an abnormal increase in the soft coal production of the United States. For example, in the nine months to September 30 the United States mined 447,900,000 tons of soft coal. This suggests a total for all of 1918 of 585,000,000 to 595,000,000 tons, the latter figure representing a gain of 90,000,000 tons, or 18% over the 502,000,000 tons mined in 1916.

Broadly speaking, the country so far during 1918 has been producing soft coal at a rate of 125,000,000 tons in excess of the 1914 total.

This is, of course, an abnormal growth and clearly promises decided over-production were it to be continued. The complexity of the situation is better appreciated when it is recalled that the natural economic method of checking this over-production would be a cut in price of bituminous.

But here the question of wages assumes vital importance. Probably 70 to 75% of the average cost of

soft coal represents labor. And wages paid in the different soft coal fields have advanced 100 to 125% since 1914. Any drastic cut in wages would quickly be measured in strikes and miners might very properly object to a sudden scaling down in wages at a time when lower food prices seem immediatley impossible and perhaps not possible in any major way for a year or two in view of our international obligations to feed the war hungry people of Europe.

Our object in sketching this dilemma is not only to show the particular problems of an essential labor industry like bituminous coal, but to suggest the active probability that the confusion is so great that the Government must of necessity continue to regulate coal prices for some time to come. The fuel administration has a legal existence until peace is signed, so that no legislation would be needed to make such regulation possible.

It is good opinion that what is likely to happen will be the establishing of minimum and maximum prices. Such a regulation would give quality coal its innings. Emphasis on production has so far eliminated considerations of quality. But with lessened demand it is a moral certainty that quality coals will have first call. In fact, as conditions existed up to 30 days ago coal of very inferior grade was being sold at the same prices as high-grade coals. Many of these low-grade mines will be automatically driven out of business. Some over-production will be eliminated by this process of re-emphasis upon quality.

There is believed to be a good opportunity to build up a large export business in quality soft coal. Italy, France and South America would be glad of large tonnages of American. It is a question of transportation and price agreement.

THE PORPHYRY COPPERS.—Times have been so badly out of joint in the copper industry for more than a year past that one is apt to be somewhat misled by placing too much emphasis upon the results for any limited period. For instance, although the price of copper has been fixed during the whole year, it has been impossible, at times, owing to transportation difficulties, to ship all the copper produced. As the "Jackling" companies have adhered to their practice of carrying "unsold" copper at 13 cents per pound, it has in some quarters happened that the price used as a basis for estimating profits has been below the fixed price, and in some quarters above it.

For the third quarter of the year, it happened to be about 2 cents lower. In short, it can only be by a review covering some length of time that one can get at all a fair idea of the performance of these companies, and with this idea in mind, we submit the general results for the first three quarters of the year:—

Utah Copper	Production	Profits	Dividends
1st quarter	41,276,000	$3,810,663	$4,061,225
2nd quarter	52,724,000	6,493,376	4,061,225
3rd quarter	54,739,000	5,310,011	4,061,225
Total	148,739,000	$15,614,050	$12,183,675

It will be noted that in the first three quarters of this year, Utah Copper has earned about $3,500,000 more than it has paid in dividends. A continuance of earnings through the balance of the year at this rate would mean a final profit for the year in the vicinity of $13 per share.

It will also be noted that profits on its production have averaged only a little over 10 cents per pound:

Chino	Production	Profits	Dividends
1st quarter	19,449,000	$1,124,254	$1,304,970
2nd quarter	19,030,000	1,916,513	869,980
3rd quarter	20,721,000	1,035,749	869,980
Total	59,200,000	$4,076,516	$3,044,930

It will be seen that Chino's surplus over dividends for the first three quarters was something over $1,000,000. This, however, was with payments during the first quarter at the rate of $6 per share. At the present rate of $4, the surplus would have been greater by about $430,000. Chino's average profit per pound during this period was less than 7 cents:—

Ray Consolidated	Production	Profits	Dividends
1st quarter	22,011,000	$1,105,863	$1,577,179
2nd quarter	23,352,000	2,255,218	1,182,884
3rd quarter	21,180,000	883,348	1,182,884
Total	66,543,000	$4,244,429	$3,942,947

Ray's surplus during the first three quarters of the year of $300,000 was smaller than the other two, but this also was after the payment of dividends in the first quarter at a larger rate than the company is now paying. The average profit per pound was about 6½ cents.

These three companies have, in the first three quarters, produced, approximately, 274,000,000 pounds of copper, at a profit of $23,932,000, or an average profit of less than 9 cents per pound. This is no larger margin of profit than these companies have demonstrated themselves able to make on an average 16-cent metal market, with strictly normal costs.

As these companies have demonstrated an unusual control over their cost, it stands to reason that there must be a great deal of copper being produced today at exceedingly little profit, and that any falling off in price would quickly eliminate a considerable volume of production.

INDUSTRIAL INVENTORIES.—In the readjustment of prices, which is bound to come sooner or later with the advent of peace, the matter of the inventories is likely to prove of considerable importance and perhaps of some danger to many of the industrial corporations. In view of the high prices for goods of all descriptions now prevailing and the tremendous volume of business now being done, it is, of course, to be expected that inventories would be much greater than before the war. Mere expansion, therefore, is not of any great significance. But the relation between inventories and total net working capital at present, as compared with that before the war, should be of value as indicating whether or not a serious loss from the marking down of prices is likely.

We have, therefore, prepared the following table, showing the relation between inventories and net working capital according to the last annual reports of twenty-five leading industrials, and the same relation in 1913. The latter year was a period of fair business activity, so that we are comparing the present status with one that might be considered normal.

In general, the 1917 ratio is much larger than that of 1913, the average ratio of inventories to net working capital for the twenty-five companies being 88% in the former, as against 66% in the latter year.

It is noticeable, however, that a few corporations show actually a smaller ratio now than in 1913. Among these are Corn Products, Crucible, National Enamelling, Republic Iron & Steel, and United States Steel. Studebaker and General Motors also make a slightly better exhibit. The steel companies, as a class, however, make by far the best showing, with an average ratio in 1917 of 64%, as compared with 75% in 1913:—

	1913			1917		
Companies	Net Working Capital	Inventories	Ratio*	Net Working Capital	Inventories	Ratio*
Allis-Chalmers	$12,217,774	$4,889,171	40%	$16,488,831	$12,410,127	75%
American Agricultural Chemical	24,833,970	8,876,680	36	33,181,618	19,523,208	58
American Can	15,800,370	9,729,703	62	30,154,349	24,136,484	80
American Car & Foundry	18,572,636	16,821,888	90	32,674,478	28,786,594	88
American Hide & Leather	9,074,234	9,523,602	105	14,014,142	11,889,481	85
American Locomotive	13,182,644	9,724,256	74	26,300,675	25,286,620	96
American Woolen	22,497,436	10,708,380	48	34,133,353	42,829,234	126
Baldwin Locomotive	13,479,404	3,155,176	23	18,250,937	20,434,766	112
Bethlehem Steel	12,318,723	10,206,734	83	72,895,503	71,051,937	97
Central Leather	52,940,442	42,458,843	80	74,805,396	63,476,288	83
Corn Products	5,796,688	3,540,942	61	16,671,264	6,097,317	37
Crucible Steel	9,223,660	7,172,567	78	25,759,819	18,908,356	73
General Motors	21,836,010	18,170,907	83	57,615,746	46,559,394	80
Goodrich Rubber	16,118,437	12,614,927	78	30,820,018	50,735,871	164
Midvale Steel	——	——	—	72,197,947	36,758,371	50
New York Air Brake	2,738,034	1,465,553	53	5,435,532	3,391,996	63
National Enamel	4,306,037	4,818,340	111	8,544,700	7,080,086	83
Railway Steel Spring	4,632,238	1,592,801	35	5,896,009	5,113,038	87
Republic Iron & Steel	10,781,168	7,454,745	69	25,945,536	13,475,652	52
Studebaker	17,863,664	16,622,229	93	23,535,266	21,322,134	90
United States Rubber	46,065,464	30,384,520	66	83,927,586	72,440,171	86
United States Steel	245,180,673	167,634,791	68	459,645,815	223,668,086	49
Willys-Overland	4,777,630	5,186,858	108	30,014,033	40,589,808	135
Wilson	11,511,547	6,272,652	54	18,529,293	34,518,851	186
Westinghouse	11,318,295	4,307,505	38	14,537,977	9,075,161	62

*Ratio inventories to net working capital.

EUROPE AND SUGAR.—Few commodities present a more fascinating field for the play of international forces during the next few years at least than sugar.

During the two years before the war Germany produced an average of 2,700,000 tons of beet sugar yearly. Of this 1,400,000 tons were consumed in Germany and 1,300,000 tons were exported, the bulk going to England.

Because of food shortage the German government exerted pressure to increase sugar consumption, with the result that 1,700,000 tons were consumed in 1915. The 1918 crop is estimated at 1,600,000 tons, every ton of which has been used in Germany. Not only that, but the increase in per capita consumption from 45 to 70 pounds has resulted in cleaning up all surplus stocks of old sugar.

Even if Germany in 1919 were able to increase its crop by 50% to 2,500,000 tons, it is a question how large an exportable surplus there would be. And England, its largest customer, is not likely for some years at least to be overwilling to take German sugars.

In short, as the situation lines up England and France for a year or two are very likely to call for 1,000,000 to 1,200,000 tons of the Cuban crop.

In France a period of drastic reconstruction and rehabilitation is being faced by the French beet sugar industry. In July of this year 75% of the approximately 200 French beet sugar factories were in German hands. When the war ended less than a dozen factories were inside the German lines. But scores of factories have been literally leveled by artillery fire and the problem of reconstruction is already being studied. French commissions are even now considering placing large orders for beet sugar machinery with United States manufacturers.

The same story is true in Belgium and destruction of beet factories has been as complete in that country as in France.

In short, the devastation of war leaves France and Belgium upon Cuba and the United States for at least 75% of their sugar while England is almost certain for several years either to buy heavily of Cuban raws or make some unusual effort to get Javas to London. The latter is a question of tonnage and until a measurable relaxation in tonnage is assured, Cuban raws would seem to have first call.

MIDVALE STEEL.—In its September quarter Midvale Steel, for the first time during 1918, showed a comparative decrease from the same period of the previous year. The decrease of $245,658, or 3%, was, of course, very inconsequential and is entirely explained by the increase of $1,642,014, or nearly 120% in allowances for depreciation.

As a matter of fact, Midvale Steel has been steadily increasing its quarterly charges against earnings for depreciation, as is shown below:—

March quarter	$1,181,320
June quarter	2,778,485
September quarter	3,024,162
Total	$6,983,967

This provision for depreciation is actually $157,546 larger than the total charge for depreciation in all of 1917 of $6,826,421. If the December allowance is on a par with the September charge it would mean a provision in all of 1918 of $10,000,000, which is equal to $5 per share on the stock.

Midvale Steel's quarterly reports do not carry the full story of its strong earnings during 1918. This is because the balance of net is, after an estimated set-up for taxes, whereas in previous years the company has shown its net before taxes and the charge against earnings for taxes. The company's failure to show its tax reserves is not due to any wish to be secretive, but was dictated in the first place by a desire to wait until the tax bill had become a law. Had this bill been passed with the expedition hoped for Midvale would have at once shown its net both before and after taxes.

It is understood, however, that the amounts reserved for taxes have been on a most liberal basis and will fully meet the test of an 80% tax law. It is perfectly obvious that these tax reserves have been running at a rate far in excess of the $25,731,000 reserved in the fiscal year to December 31.

In the nine months to September 30, Midvale Steel earned a fraction over $12 on its $100,000,000 stock after all deductions. If the December quarter shows $3 additional it would mean $15 for the year, or 30% on the par of $50. These profits would compare with previous years as follows:—

	1918	1917	1916
Per cent. on stock	30%	35.6%	31.4%
Dollars per share	15	17.8	15.7

Midvale Steel shares have been in poor technical position practically since the formation of the company. This condition obviously cannot be remedied while the entire steel industry is in the throes of readjustment to peace conditions.

It is becoming increasingly apparent, however, that the readjustment of steel prices and wages is one of those fundamental changes that requires Government regulation if a period of industrial chaos is to be avoided. It is good news and at the same time logical news that the Government will continue to regulate steel prices.

Midvale itself has been a smaller war stock than is generally imagined. In 1917 only 12.83% of its product was "exclusively for war purposes." This year the percentage has naturally been higher, but it is believed that the total is under 25% of its gross product.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 781 November 29, 1918

THE GENERAL MARKET.—It is noteworthy that most of the slump this week has been in the stocks that recently enjoyed most of the advance on the Peace boom. While some of this advance may have been justified, in most cases it was overdone. This feature has now been corrected; in short, the market may be said to be now selling "ex-emotion." One of the reasons or, perhaps, it should rather be said, excuses, given for the slump in railroad shares this week is the fear that they may not be returned to their owners. To judge from some comment, the railroads are to be taken away from the shareholders at whatever price the Government may choose. This kind of talk overlooks one simple basic fact, that there is a clause in the Constitution that no one may be deprived of his property without due process of law. If actual Government ownership should come about, no one could doubt that anything approaching a fair valuation would put a valuation on railroad properties far in excess of what the market places on them today. Government operation without ownership could not very well come about without some guarantee of income, and the basis adopted in the plan now in use is a fair criterion of what may be expected. This would, in time, warrant somewhat higher values than now obtain. Not that we are, for a moment, in favor of Government ownership or operation; on the contrary, we are unalterably opposed to it. It would mean in time the loss of all the splendid results gained under individual intitiative; in short, would mean poor service at high rates. But it seems to us that the party who should do the worrying over the possibility of adopting such a program is the public rather than the owners of railroad securities.

It is furthermore to be remembered, that when the railroad policy is finally adopted, it will be settled under somewhat different political auspices than now prevail.

After all, the fluctuations in the market may be broadly taken as an effort to adjust itself to Peace conditions; its movement toward this end the past week has been a good deal more genuine than the "Hurrah" market at the time of the signing of the Armistice.

As we suggested a couple of weeks ago, the market will accomplish in a month what it will take the business world six months to do. While the latter is still in the throes of the process, the stock market will have been straightened out and probably on its way upward.

For the immediate future, and until this process has been discounted, marketwise, one must expect a very irregular course of prices, but we believe that a level has been reached where the majority of stocks are a purchase on all dips for a long pull.

AMERICAN SUGAR.—The sugar industry of this country promises to complete its readjustment to after-the-war conditions not only with comparatively little discomfort, but with actual decided relief.

In a broad way, therefore, the outlook for all cane sugar refining companies in 1919 is for a year of good profits, certainly a better year than in the 12 months to December 31 next.

To begin with the price of sugar has been fixed so that the risk on inventories has been eliminated. Furthermore, the marketing of sugar under the auspices of the Food Control people will be on the same basis as in 1918, a method releasing a very large portion of the big $45,000,000 working capital, which American Sugar has carried for the last two years. This capital, which will not be required in carrying stocks of raw or refined sugar can continue to be profitably invested, in short time loans or other attractive high income producing securities.

One of the favorable features of the entire sugar refinery outlook for 1919 is the promise of a large export movement of refined sugar. Last fall the cane sugar refineries were deprived of an export market on refined sugar, but the exigencies of European demand are so great that there is little doubt that in 1919 the American refiners of cane sugar will be called upon to furnish 700,000 to 800,000 tons at least of refined sugar. The effect of this, coupled with an active domestic market, would seem to be to assure capacity operation practically for all of 1919.

Another favorable influence which will also be felt next year will come from some relaxation in the rigors surrounding the marketing of sugar. Sugar has been rightly regarded as the most ultra regulated food product in the world. The entire psychology of the sugar situation, with the ending of the war has been changed and it is morally certain that the refiners will be freed from many burdensome restrictions and red tape in the manufacture and sale of their product next year.

Another helpful factor will be the easing up in the supply of labor. The sugar refining business employs in the aggregate a large quantity of low-priced labor. Much of the time during 1918 it has been impossible to get more than 70% of a normal supply of labor. Not only have wages been steadily advanced, but there have been enormous changes in personnel requiring the maintenance of special labor bureaus to keep these companies in operation.

American Sugar closes its fiscal year on December 31. While the balance on the $45,000,000 common will be less than in either 1917 or 1916, earnings will undoubtedly be sufficient to show the present regular 7% and 3% extra on the $45,000,000 common stock fully earned.

Profits from sugar refining have been naturally smaller than in the two preceding years, but the income from the beet sugar investments of the company and its income from cash ordinarily employed in carrying inventories, but lately reinvested in short-time securities, have been sufficient to make the results of the entire year fairly satisfactory.

STUDEBAKER CORPORATION.—It will take Studebaker about three months to complete its transition from a 100% war production basis to a straight, normal automobile production basis.

Studebaker had last September about $50,000,000 of Government orders for a wide variety of war materials, including water-wagons, ambulances, service wagons, gun carriages, shells and whippets, as well as mine anchors and caterpillar equipment.

Obviously the uncompleted portion of this work which forms a large majority is subject to cancellation.

But it is worth observing that considerable of the war work which Studebaker has been doing has been along regular lines of production. The water wagons, service wagons, dump carts, ambulances and even whippets represent products which contain but minor variations from usual peace time output. The carriage and wagon building portion of Studebaker's business will, therefore, have comparatively little adjusting to do.

According to present plans Studebaker will have a manufacturing schedule in 1919 calling for 40,000 passenger cars. This it is believed will be the minimum number produced. Such an output would compare with 24,000 cars in 1918 and 42,000 in 1917.

The plants have a capacity to produce between 80,000 and 100,000 cars, so that expectation of 40,000 would seem to allow for great delays in readjustment to peace conditions.

It is interesting to note that Studebaker's $30,000,000 common has lost 20 points of the 25 points advance it had between August and October.

Rumors have been in circulation that the company would shortly create an issue of additional preferred. There is no apparent reason why the company should borrow any money. The company has been steadily cutting down its bank loans, which on December 31, 1917, stood at $7,400,000. This debt should be virtually eliminated by January 1 next. And clearly the task of carrying a 40,000 passenger car production with a $25,000,000 net working capital is not particularly onerous. In fact, on normal costs for materials, Studebaker, with its present strong working capital position could sustain double the anticipated 1919 output without reliance upon bank loans.

Those in closest touch with Studebaker affairs are confident the present $4 dividend is conservative in relation to present and prospective earnings and they expect that the readjustment to peace can be accomplished without any material interruption to net earning capacity.

CUBA CANE SUGAR.—It is probable that the forthcoming annual statement of Cuba Cane Sugar for its fiscal year to September 30 will show a balance for the 500,000 shares of common of between $5 and $6 per share. This is somewhat less than earlier expectations of a net of $8 to $9 per share. The difference in the common stock balance is accounted for by increases in charges for depreciation and taxes.

Cuba Cane Sugar is facing the prospect in 1919 of the most successful year in its history.

The promise is for a crop of 4,200,000 bags against an actual crop of 3,613,000 bags in the fiscal year just ended. As a matter of fact, the cane acreage is sufficient for more than a 4,200,000 bag crop.

On the basis of a fixed selling price of 5½ cents for Cuban raws and after allowing for some increase in operating expenses Cuba Cane Sugar in its 1919 crop year should earn between $16 and $18 per share even on the basis of continuance of the 1918 war taxes.

Cuba Cane Sugar has now practically finished the big physical expansion and rehabilitation program upon which it embarked when the company was organized. In three years a total of $24,000,000, or $48 per share on the common has gone back into property. The bulk of this has come from earnings. A portion represents a drawing down in working capital.

But by the end of next June if earnings materialize as they now promise to do, Cuba Cane should have rectified its working capital position and should have wiped out the $10,000,000 floating debt it was carrying on September 30 last.

In connection with the general sugar outlook it is interesting to know that the bogey which has been made of a supposed unsold stock of 2,000,000 tons of sugar in Java is largely a figment of the imagination. The unsold sugars in Java total but 750,000 tons and competent authorities are confident every ton of this will pass into consumption in India, China, Japan and other parts of the Orient. So far as its effect on European markets are concerned this sugar is practically non-existent.

KELLY-SPRINGFIELD.—The fiscal year of Kelly-Springfield ending December 31 will easily be the best in the company's history. The final balance for the $4,907,200 common, or 196,288 shares will, of course, depend upon the terms of the tax law. Before taxes, however, Kelly-Springfield is earning at the rate of nearly double the 48.1% accumulated on the junior issue in the December 31, 1917, fiscal year.

Kelly-Springfield, in common with all the companies, has enjoyed an active demand on a rising market during 1917 and 1918.

The company terminates its war period in very strong financial position. By December 31 it should have a net working capital of between $8,500,000 and $9,000,000, a sum in excess of the par of its $3,509,300 6% first preferred and its $4,907,200 common. This balance of net quick assets represents a gain of practically 90% over the $4,776,407 of working capital at the close of the 1916 fiscal year.

Kelly-Springfield, about a year ago, laid its plans to erect a large modern and thoroughly equipped tire plant at Cumberland, Md. The land for this plant has been purchased, graded and laid out and a machine shop is practically finished. The company will proceed with the erection of the main buildings as rapidly as it can. The idea is to concentrate its production at Cumberland and gradually draw away from Akron, where the main plant is now located. It would, perhaps, be fairer to the common stock if the cost of building this new plant were to be financed in part through sale of securities. To assess the entire expense against the common, especially as this new plant means a very considerable increase in volume of production, would not be entirely equitable.

Kelly-Springfield is now paying 16%, or $4 a share on its common. This distribution does not by any means measure the possibilities for this stock, although a larger return may have to await the development of the new plant at Cumberland.

WESTERN UNION.—It is a curious development of war days that the industry which bids fair to bring to a head the entire question of state socialism is the telegraph, cable and telephone business. In other words, it has been the seizure of the cables by the postmaster general, under authority granted him by the President, which has focused the thoughts of the public upon the question of continued Government control of business undertakings which up to 1917 had grown and expanded in usefulness under the spur of private ownership and individual initiative.

Unless we misjudge the temper of the public mind, the seizure of the cables has been profoundly resented by the thinking people of America. This is not because of any love for Western Union or because of any sensitiveness regarding the property rights of Western Union stockholders. In a broad way, Western Union is a minor factor in the whole question. It is merely the small pivot on which the minds of the public are turning in respect to the patent attempt of Washington authorities to socialize the state.

While there has been a very frank protest in many quarters against the taking over of the cables, there is nothing in this step which is illogical or from a practical standpoint unsound. Cables and land lines are complementary to each other. If the Government is to continue to hold the land lines of the telegraph companies it should logically have control over the cables. And in a broader way, the proposition to merge into a great operating unity the telephone, telegraph and cable systems is also a logical development and one which from the theoretical standpoint should promote the greatest efficiency.

The real question which is coming before the public, therefore, is not that of whether they resent the appropriation of the cables, but whether they are prepared to see built up in the United States a great unified wire system, embracing in one composite mass the telephone, telegraph and cable and under the control of the Government and manned and officiered by employees of the Government.

From the narrow standpoint of safety of the 8% dividend on American Telephone or the 7% dividend on Western Union, the continuation of Government operation of the wire systems may be greatly to be desired, but the broader question is of such paramount importance that it seems logical to expect that it will not be settled definitely until public opinion has had time to definitely pass on the question. If the public desires that the Government should continue to hold the wire systems its will is law. But if the public turns against the whole question of Government ownership, the telephone and telegraph companies will be returned to private operation, even though this involves the surrender of a guaranty of the dividend.

GREAT NORTHERN IRON ORE.—The Trustees of the Great Northern Iron Ore Properties have declared a dividend of $2 payable December 17 to holders of record November 30. In March and June of this year $1 each was distributed so that the total payments for 1918 are $4, by far the largest annual distribution since the organization of the trust in 1906. The previous dividend record has been as follows:—

1917	$1.50
1916	1.25
1915–1914	.50 each
1913–1912	.50 each
1911	1.50
1910–1909–1908	1.00 each

It is unfortunate that annual reports issued by the trustees are so complicated and involved as to make it exceedingly difficult to obtain a clear idea of the actual earnings of the properties. The reported profits of the ore trust in 1917 were not sufficient to meet charges and taxes, not to mention dividends. However, these receipts only included interest and dividends paid by the operating subsidiaries whose securities are owned by the trust, and in 1917 no dividends were paid by the subsidiaries. The actual gross earnings of the operating properties was $4,999,593, of which it is figured that the trust's interest amounted to $4,535,293, or the equivalent of $3.02 per share for the 1,500,000 certificates of beneficial interest outstanding.

It is possible to figure the total income as high as $8,518,327, or the equivalent of $5.68 per share. Prepayments of investments and reimbursements for previous development work on properties are not

included among receipts, but are credited against expenditures. Last year there was paid back to the properties $193,248 loaned to lessee companies, $80,737 of taxes refunded, and $3,883,178 invested in previous development.

The balance sheet for December 31, 1917, gave a value to ore lands and leases of $74,170,608, as against $1,513,545 the preceding year. This revaluation was due to the federal tax law. The value of the ore lands is, of course, problematical, although a figure of $74,000,000 for a 300,000,000 tonnage, or 24 cents a ton, would appear to be quite conservative. Nevertheless, disregarding the ore lands entirely, the balance sheet shows an excess of assets over liabilities of $19,512,518, or $13 per share for the certificates.

Beginning with 1912, in order to meet the situation created by the cancellation of the Steel Corporation's lease of a considerable portion of their properties, which took effect June 1, 1915, the companies entered upon extensive development work preparatory to conducting actual mining operations. This policy necessitated large expenditures and strict conservation of assets. However, through leases made in the last few years, most of the developed mines have been disposed of, and the companies have withdrawn from active mining. It was estimated that these leases, on the basis of the minimum ore shipments required, would provide an income of $3 per certificate. The minimum tonnage that must be mined increases every year so that the trust would seem assured of a steadily mounting income. Furthermore, in periods of activity in the steel industry, as at present, the minimum tonnage will be greatly exceeded, thus adding still more to the income of the trust. From now on any large expenditures on the part of the trust or its operating companies would seem to be unnecessary, and it may well be that the Great Northern Iron Ore Properties are entering a period of greater prosperity and larger dividend distributions than they have ever before enjoyed.

THE SPELTER MARKET.—Spelter is one commodity that, without attracting much attention has, apparently, already adjusted itself to "peace" conditions, so far as supply and demand are concerned.

Spelter, in the early days of the war, had the most sensational advance of any metal. The result was, of course, to increase production very rapidly, until there was a productive capacity far in excess of normal requirements. It has taken about a year and one-half to correct this situation. Weekly production, which had been running about 13,200 tons, has, of recent weeks, been reduced to about 9,500—a reduction of 30%. Likewise, the ore producers, finding themselves unable to sell ore at a price that would afford them a living, have agreed to curtail production by 50%.

The result is that where stocks, at one time, had run up to over 60,000 tons—today, they have been reduced to around 30,000. In prime Western, the situation is particularly strong, as the weekly production of this brand has dropped from 7,100 tons to 4,600—a reduction of 35% and, today, stocks are only a little over 8,000 tons; in other words, only about two weeks' production.

Meantime, the galvanizing trade, which—normally—had been the big consumer of spelter, but during the war, had been cut down to a very small fraction of its usual takings, has re-entered the market in considerable force.

The result has been, within the last couple of weeks, quite a noticeable recovery in a slump that had carried the price of spelter down about three-quarters of 1 cent per pound.

It is true that now it is not quite as high as it averaged during the third quarter of the year, and it is also true that, even at this price, which is about 3 cents per pound above what used to be considered a normal figure, it is still impossible for the producers of spelter, as evidenced by the last quarterly report of one of the largest factors, to make a respectable profit.

Nevertheless, the point is worth emphasizing, that the trade has, apparently, reached a fairly normal basis of supply and demand and, as it is to be hoped the cost of production gradually recedes, the margin of profit should gradually increase.

WALWORTH MANUFACTURING COMPANY earned in the third quarter of the year, net profits, after charges and depreciation, of $765,093. This is very much the best three-months' period in the history of the company. In the nine months to September 30, the company has earned $1,671,360. This is after charges and depreciation, and an allowance for taxes somewhat larger than in 1917.

Probably there will have to be a considerable further allowance for taxes on the basis of the bills now before Congress, but it is likely that the earnings of the last three months of the year will be more than enough to take care of this item, leaving a balance for the 200,000 shares of common stock, after all taxes, of at least $8 per share.

The company's balance sheet reveals an exceedingly strong position. At the close of the September 30 quarter, the company had net quick assets of over $5,400,000. This sum is sufficient to cover the bonds and preferred stock at par, and leave a balance equivalent to nearly $13 per share on the common.

In addition to this, the company has a plant value, less depreciation, taken at conservative figures, equivalent to $21 per share on the common stock, giving a total asset value behind this stock of $34 per share.

The company has not had any appreciable cancellation of orders, and there is no question in the minds of the officials of its ability to operate at full capacity, as a large proportion of its production has been going into shipbuilding construction, and it has also had to refuse a great deal of commercial business, which will be available as soon as the company is in a position to accept it.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

HA

Members of
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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 786 January 3, 1919

THE GENERAL MARKET.—Until the producers and consumers of the great staple articles, particularly iron and steel, get together on a basis where they can do business freely, the business world will have such an air of uncertainty that its effect cannot but be communicated to the stock market. Reaching a basis on which business can be freely carried on cannot be effected in a moment after such a prolonged period of artificial price stimulation as we have been passing through, but we believe—before this month is ended—we shall see good progress. The first step was taken in the price reduction recently announced. This was not only a wise movement as tending to bring producers and consumers together, but it gives the companies a vantage point in calling for a reduction of wages when this step becomes necessary as, eventually, it must. The fact that the companies were willing to make the first sacrifice places them in a strong position on the wage question.

As a matter of fact, the cycle of advancing wages and prices has reached such an acute stage that there is really no further benefit to be gained by any further advance in wages. While we all like to get as much as possible in dollars and cents, there is no gain whatever when any advance in the money wage paid is immediately followed by a corresponding advance in everything that goes to make up the cost of living. The process had reached this point. After all, it is not so much a question of how many dollars a man receives, as it is how much those dollars will buy, and we may be very sure that it is not until the number of dollars received by the average laborer is decreased, that the purchasing power of the individual dollar is increased. We shall be all the more better off when that time comes and a natural open market, free from artificial restrictions, is established for labor.

Meantime, advantage can be taken of any let-up in operations for a much-needed cleaning up and repairs and a weeding out of working forces, something that has not been possible for three years past. This and the consequent increase in efficiency, though not nominally so, is actually equivalent to a reduction in wages.

Of course, the same thing is true in copper and other metals as it is in steel. We may be very sure that copper will be forthcoming only as it can be produced at a profit. Copper stocks are now at a point where the margin of profit, which many years' experience has shown can safely be counted on as an average, will yield handsome returns.

The available liquid cash resources of the world is a subject that will repay close study. This week's statement of the Bank of England, showing an increase of £65,000,000 in deposits and £53,000,000 in Government securities, is indicative of the enormous changes going on. The proportion of reserves of less than 12% is lower than at any time during the war and compares with an average of 40% that this great institution used to maintain.

It would seem, in the face of this showing, that the anxiety over the stretching of the resources of our own Federal Reserve System has been a little overdone.

Marketwise, a period of inertia is to be expected until the business world shows more confidence, but we consider that prices have discounted the present uncertainty and the lessened profits that are to be expected, and that when the industrial world finds itself the effect will be quickly reflected in securities.

OTIS ELEVATOR.—Fiscal year of Otis Elevator ending December 31 will probably be the best in the company's history from the standpoint of net profits. The volume of gross was slightly less than in 1917.

Superficially such a result seems a bit paradoxical when the special character of its business—its dependence on new construction—is taken into consideration.

Otis Elevator was injured in earning power in 1914 and 1915, a fact which perhaps establishes partially at least its claim to being essentially a peace time business.

But the enormous industrial expansion of this country—particularly in manufacture of war supplies and equipment—created a demand for elevators which has resulted in a three-year climb in net profits to the probable record total of the 1918 year just ended.

Fortunately for Otis Elevator it is carrying over into 1919 a very handsome total of unfilled orders, so that the year starts with over 75% of the volume of apparatus produced in 1918 on the books.

This is probably fortunate for Otis Elevator, as the outlook is such that orders for the first half of 1919 promise to be rather slack. It must be appreciated that Otis Elevator has for three years been doing a gross business out of proportion to its capitalization. Thus, in 1917 on $13,971,000 of permanent capital the company handled nearly $24,000,000 of gross business. Inasmuch as the turnover in apparatus of this nature is very deliberate, the accumulation of floating debt was unavoidable. On December 31, 1917, the

company had $6,200,000 of bank loans. This total has been very radically reduced during 1918 and at present is less than 60% as large as a year ago.

Otis Elevator preferred has maintained unbroken 6% dividends since 1899 and the common has expanded its dividend payments from 2% in 1899 to the present 5%, which has been paid since 1913.

With its floating debt cleaned up and the $3,100,000 5% debentures maturing April 1, 1920, provided for, Otis Elevator should be in a position to do a little something more for the common, especially as the balance for this issue has averaged 20% for the past two years.

UNITED STATES SMELTING.—The statement issued of the profits for the first 11 months of the year is chiefly of interest when compared with that issued last June, covering the first 6 months. The figures for the two periods compare as follows:—

	Net Profits	Allowance for Depreciation Depletion, Taxes, etc.
11 months	$4,503,500	$2,614,526
First 6 months	2,458,839	896,447
Last 5 months	$2,044,661	$1,718,073

From the profits for the 11 months, there is a further deduction to be made of $500,000, leaving a net balance of $4,003,500. This is at a rate, after providing for dividends on the preferred, of 15%, or $7.50 a share on the common stock. Before special allowance of $500,000 for writing down metals, the earnings for the 11 months were at the rate of $9 per share per annum, or at just the same rate as those for the first 6 months. Here, however, comes in a very important modification. In the above figures it will be noted that the allowance for depreciation, depletion, etc., for the last 5 months is nearly double that of the previous 6 months. Had the allowance for the entire period been at the same rate that it was for the first 6 months of the year, the earnings for the 11 months would have been at the rate not of $7.50 a share, but of $16 per share on the common stock after a write-off for metals. Such a showing would have compared with earnings last year of a little over $5, and would have been the next largest to the record earnings of $20 a share in 1916.

No doubt, however, the company, in making the additional allowance for depreciation, taxes and depletion the latter part of the year, is following the only conservative course; consequently, a figure of about $7.50 for the full 12 months is what should be counted on as the final divisible profit. While this does not provide a large excess over dividend requirements, it is still a very satisfactory showing, particularly in a year that includes heavy write-offs for falling metals, the chief source of danger to a smelting company.

NATIONAL BISCUIT COMPANY.—Ending of the war has had anything but a detrimental effect upon the sales of the National Biscuit Company. In fact, the influx of domestic business has been so considerable that the company is today operating its plants at better than 100% of capacity and at a rate 15% greater than in December, 1917.

National Biscuit, in 1917, changed its fiscal year to end December 31 instead of January 31, as formerly. The annual statement for the 12 months to December 31 will probably show net earnings for the $29,236,000 common, after deduction of 7% dividends on $24,804,500 preferred, of over 11½%. This would compare with profits in the fiscal 11 months to December 31, 1917, of 9.8% and 9.7% in the 1916 fiscal year.

The attractive sides of National Biscuit are the peace character and great stability of its business. The company, for two years after the beginning of the war, was in point of fact severely injured by rising prices for its raw materials. The soaring movements in flour, sugar, lard, chocolate and other materials were not compensated for until the company early in 1917, after great deliberation, broke away from the customary or fixed price idea in the retailing of its carton goods. The public had for so many years been accustomed to purchase Uneeda Biscuits at 5 cents per package that the company's management naturally hesitated to order price advances that would interrupt the settled trade practice of years.

But necessity at least drove all the biscuit companies to advance prices, with the result that the "fixed price" idea has been definitely abandoned and the recovery in National Biscuit's net profits has been practically $1,000,000 from the dip in the 1916 year.

Contrary to general impression, National Biscuit sells the largest percentage of its products in bulk form. The division between bulk and carton goods amounts to practically 60 and 40%.

Unlike many industrials, National Biscuit is not complicated by inventory problems. Its stocks of raw materials are entirely normal in amount and are carried at very conservative figures. In fact, the ability of the biscuit companies to again secure supplies of wheat flour is a great boom. It means the elimination of expensive and unsatisfactory substitutes.

In the United States the biscuit industry has never attained anything like the importance which it commands in England. The per capita consumption of biscuits in this country is less than 20% of what it is in England. The opportunity for expansion of the biscuit industry, particularly as it has largely resolved itself into a merchandising proposition, would seem to be very considerable.

National Biscuit common has had a long and honorable dividend record. It has paid uninterrupted dividends for nearly twenty years, having distributed a 7% regular dividend since 1912.

The annual statements have never disclosed the full earning power of this corporation, a fact which

is proved by the statement that at least $18,000,000 of new plants or plant betterments have been added since organization in 1898. None of these plant additions have had to be financed by new stock or notes.

National Biscuit has at present practically $80 per share for its preferred in working capital.

The common now selling around 108 is 19 points below the 1917 high and 22 points under the high of the past six years.

DISTILLERS SECURITIES.—When its fiscal year closed on December 31, Distillers Securities is understood to have had a net working capital of slightly more than $18,000,000. This compares with $11,871,992 on December 31, 1917, an increase of better than 50% during the twelvemonth.

It is interesting to compare briefly the improvement which has been achieved in the financial position of Distillers Securities during the four-year war period. This betterment is pictured in the following:—

	**Dec. 31, 1918	Dec. 31, 1914	Increase	%Increase
Stock	$32,300,000	$30,818,281	$1,492,000	4.8%
Stock subsidiary companies	530,000	3,779,153	*3,249,000	*86.1
Bonds	5,500,000	15,633,236	*10,133,000	*64.8
Working capital	18,000,000	10,302,876	7,608,000	73.8
Surplus	15,000,000	4,240,559	10,760,000	253.7

**Estimated. *Decrease.

The company holds today against about $5,500,000 of its own bonds about $10,000,000 of Liberty Bonds and cash.

It may be noted that the $18,000,000 of working capital is equivalent to nearly $40 per share on the stock after deduction of the par of outstanding bonds.

If Distillers could be assured of a definite business it is in such strong financial position and has so conserved the bulk of its war profits that it would be in splendid shape to continue to roll up substantial earnings.

It is believed, however, that for two years Distillers and Industrial Alcohol will both have a very large volume of export business in denatured alcohol. Europe is even now calling for large quantities of alcohol and will be largely dependent on this country for at least 12 months to come.

The ordinary peace time demand for denatured alcohol in the United States has never attained the proportions hoped for. It has been largely a question of price. If decline in corn prices were to be sufficient to insure a supply of cheap alcohol Distillers might expect to handle permanently a steadily growing alcohol business. Meantime the company is developing certain lines of by-product, several of which promise to be profitable and of sizeable importance.

All of this by-product work is being done on the theory that the country is about to enter a period of national prohibition.

LEHIGH VALLEY.—The contract which has been agreed upon between the Government and the Lehigh Valley R. R. fixes the annual compensation during the period of Government control of the railroads at $11,321,233. This is approximately $300,000 more than earlier estimates, based upon the average net operating income for the three years ended June 30, 1917.

Last year the income from dividends and interest on stocks and bonds owned amounted to nearly $4,000,000, and miscellaneous income to a little over $300,000, making a total "other income" of about $4,300,000. In 1917, interest, rentals, and other charges, not including hire of equipment and joint facilities rents, which are taken care of in the Government compensation, amounted to $6,560,000. On the basis of last year's results, therefore, the Lehigh Valley would appear to have a guaranteed balance of about $9,000,000 for the stock. As applied to $60,501,700 of capital stock, this would be equal to approximately 14.8%, or $7.40 per share of $50 par value.

However, since the close of the 1917 fiscal period, the company has sold $15,000,000 of ten-year 6% bonds, the annual interest charge for which will come to $900,000. Furthermore, it should be remembered that the 1917 "other income" was exceptionally large, owing to the big profits made by the anthracite coal producers. Out of the total of $4,000,000 received as interest and dividends last year, $2,397,776 was received as dividends on the stock of the Lehigh Valley Coal Co., owned by the Railroad Co. How much larger the 1917 "other income" was than in previous years may be seen from the following:—

DIVIDENDS, INTEREST AND MISCELLANEOUS INCOME.

Year to Dec. 31, 1917	$4,283,692
Year to June 30, 1916	2,411,995
Year to June 30, 1915	1,685,440
Year to June 30, 1914	2,288,291
Year to June 30, 1913	1,600,478
Year to June 30, 1912	1,727,605

The average annual income from these sources for the six years was $2,333,000, while, disregarding 1917, the annual average for the five years from 1912 to 1916, inclusive, was only $1,943,000. It would

hardly seem, therefore, as though year in and year out, the Lehigh Valley could count on "other income" of much more than $2,000,000.

Accordingly, after making allowance for the additional $900,000 interest charge on the bonds recently sold, and assuming an average "other income" of only $2,000,000, there would remain, on the basis of the Government compensation, a balance of only about $5,800,000 for the company's stock, or the equivalent of 9.7%, against dividend requirements of 10%.

Current earnings of the Lehigh Valley are making a pretty good showing. For the first half of 1918 net operating income was $6,800,000 smaller than in the same period of 1917. By November 30, however, the deficit, as compared with the preceding year, had been reduced to $3,200,000. Or to put it another way, while the Lehigh Valley's actual earnings for the entire 1918 year will probably not be equal to much more than 6% on the stock, the net railway earnings for the five months from July to November were at the annual rate of $13,000,000. With "other income" on the 1917 basis this would amount to 16% on the stock and even on the pre-war average would amount to 12% on the company's capital stock.

PHILADELPHIA COMPANY.—The collapse in New York traction securities has had some sentimental effect upon Philadelphia Company. The public seems persistently unable to assimilate the fact that this utility corporation is a street railway enterprise only in a minor way and that it could, without loss of earning power, cancel its investment in Pittsburgh Railways Company.

The Philadelphia Company's natural gas sales are running at record figures. In the six months from March 31 to October 31 gross receipts from natural gas exceeded $6,500,000, or at the rate of $13,000,000 per annum, which would compare with $11,300,000 in the fiscal year to March 31 last, a gain of slightly more than 15%.

Philadelphia Company has decided to change the date of its fiscal year from March 31 to December 31. This decision has led to the postponement of dividend action until January. There is believed to be no question, however, that the present $3, or 6% dividend, will be continued, especially as Philadelphia Company is now financed and is earning between $6 and $6½ per share, not including its equity in the undivided profits of the Duquesne Light Company.

TEXAS & PACIFIC.—Texas & Pacific Railway stock has recently received considerable market attention by reason of expectations or claims of oil discoveries along its lines. While it has been known for years that Texas & Pacific Railway probably had oil on some of its lands, particularly those in the Ranger field along its right of way, nothing in the way of exploration or drilling has been attempted. One very good reason for failure to do so has been lack of available funds.

Texas & Pacific Railway, in fact, has no considerable acreage of lands on the Texas oil fields. It owns some townsite locations, but whether title covers mineral rights is not definitely settled. There are very good chances that on certain smaller lots of land which are owned in fee the railroad may in time have money or opportunity to attempt to discover oil deposits.

Texas & Pacific Railway is, however, interesting from a railroad standpoint. It has been in receivers' hands since October, 1916, over two years. But during all of this time the company has not only paid interest on its mortgage debt, but has actually earned several times the 5% interest on its $24,661,000 5% income bonds, of which $23,703,000 are owned by the St. Louis, Iron Mountain.

The company has executed on its own behalf its rental contract with the Government, calling for an annual payment of over $4,100,000. In addition Texas Pacific has $250,000 of investment and miscellaneous income, a total balance of $2,200,000 in excess of estimated 1918 taxes, interest and payments on account of maturing equipment trusts.

Texas & Pacific has in reality been going through a "dry" receivership. It has been continuously able to meet its interest. Its default was in respect to the principal of its floating debt which, aside from any debt created under Government operation, still stands at about $3,130,000, the balance at the end of 1917.

Meantime, for 1918 practically all earnings above those required for interest and payment of about $300,000, maturing equipment trusts will go back into property, making a total of nearly $5,500,000 expended on property in three years to December 31.

On the basis of actual operations, Texas & Pacific has not been doing quite so well as outlined above. Net results from actual operation have been running a little more than 20% behind 1917. But the terms of the Government guarantee of income have been virtually agreed upon and it seems reasonable to suppose will be the ultimate basis of compensation.

The road was allotted a few months ago between $2,000,000 and $3,000,000 of new equipment. The great bulk of this it does not need, as it has today a surplus of equipment nine months in the year. Texas & Pacific has objected to receiving this equipment and the matter remains to be settled.

Texas & Pacific is undoubtedly severaly handicapped by lack of financing credit, but it has earned for four years an average of over 5% on its $38,763,810 stock, and it had furthermore on December 31 an excess of $1,645,000 of current assets over current liabilities.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 788 January 17, 1919

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THE GENERAL MARKET.—The outstanding feature of the present situation is on the one hand a stubbornly firm market for securities, and on the other an almost complete prostration of business, so far as forward buying is concerned. Most of us realized that between the abnormal war business of the last four years and a healthy "peace" business there must intervene a period of adjustment, but probably few were prepared to see so complete a cessation of buying. At the moment there is practically no quotable market for most of the great staples, while on the nominal market the margin of profit on the basis of war-time costs is actually less than normal.

Under these conditions, one of two things must happen—either securities must undergo a further sharp reduction, or else business must soon pick up. We are optimistic enough to believe that it will be the latter.

A period of deflation such as we are now passing through is unpleasant, but is absolutely essential as a foundation to building up a healthy peace business, and in more than one sense is a blessing in disguise. The fact might as well be frankly recognized that both capital and labor have been receiving abnormal returns and that both must be prepared to take less. This means on the one hand that corporations are unquestionably going to earn less money and, in not a few instances, dividend rates will have to be reduced. On the other hand, despite all talk to the contrary, wages must—eventually—come down; not to the pre-war level, but to a very material extent. Talk of labor continuing to receive war wages while capital receives peace profits is just as absurd as it would be to talk of capital continuing to receive war profits while labor receives peace wages. A deflation of one without the other would not only produce an unbalanced situation, but one physically impossible to continue.

Not that anyone wants to grind labor down to the lowest possible figure; on the contrary, every fair-minded man, it seems to us, must be in favor of the living wage, one that will support a family in decency, and with every opportunity to earn more as the laborer's value increases. But there is a vast difference between a "living wage" and a "war wage." However, there is no need to get worked up over the subject; the matter will work itself out according to laws as immutable as the law of gravitation. The great difference between the position of capital and labor today is that the directors of corporations have recognized that the period of abnormal war profits was necessarily temporary and have provided so far as possible against this very emergency. Consequently, most companies, today, are well fortified in treasury resources, in short are prepared to weather a period of readjustment with the least possible inconvenience. The great rank and file of labor, on the other hand, have spent war wages as fast as received. The danger is that if the period of readjustment is too prolonged there will be hardship, and hardship always breeds disorder.

Meantime, while forward buying is lacking, the readjustment underneath the surface is steadily going on. Stocks of jobbers and manufacturers which, perhaps, are unduly large, are passing to the retailers, whose stocks are certainly abnormally small, and from them to the final consumer. We believe it will not take long to complete this process, and the minute that it is completed buying will start in again and mark the beginning, we believe, of a very large business. We should not be at all surprised if this buying first made its appearance from abroad. It would then be quickly taken up here.

It would be a mistake to suppose that goods will go back to pre-war prices before this buying starts. In short, the reductions already made probably constitute the majority of the readjustment.

One feature that must always be in evidence before we can expect any uplift in securities or expansion generally is beginning to make its appearance, namely, easier money. As inventories are liquidated and prices recede, this tendency should increase, though perhaps, nothing that can be termed real ease will be in evidence until after the next Liberty Loan.

One feature that militates against an early completed readjustment is the continued unsettlement over the railroads. The most encouraging feature here is that all parties are at last alive to the great importance of the question. While there will be an honest difference in opinion as to the best solution, with everyone sincerely intent on working the problem out, it should be ultimately solved.

During such a period as we are now passing through, it is absolutely impossible to tell when the low point is reached. Many adhere to the theory that before we reach the end there will be a sharp break. This may be so, but for our part, we believe the important thing is to be sure to "get aboard" during this period. A difference of a few points near the bottom of the market is not a matter of first importance.

CUBA CANE SUGAR.—The annual statement of Cuba Cane Sugar for its fiscal year to September 30 was a serious disappointment and a considerable surprise to the Street. The minimum expectation had been a balance of at least $4 per share for the 500,000 shares of common after all prior deductions. The

disclosure of profits of but $1.25 per share and the record of working capital were so unexpectedly poor as to produce a rather sharp decline in both the preferred and common, the latter selling down to 24½.

In a broad way the Cuba Cane situation would seem to be about as follows:—

When this corporation was organized the prices of Cuban lands and Cuban sugar estates had been very materially inflated. The 16 original mills were undoubtedly acquired at relatively high prices, physical condition being taken into consideration. Because of recognition of this fact the Cuba Cane management promptly embarked on a policy of physical betterment and rehabilitation. This was combined with a proposed enlargement in productive capacity to 5,000,000 bags, as compared with 4,000,000 bags at the time of the company's formation.

The plan was to pay for this work of rehabilitation and enlargement out of earnings.

This program might have worked through without accumulation of any floating debt had earnings in the 1917 and 1918 years been as large as expected and had the company not expended $8,400,000 in the acquisition of the Stewart property.

As events have worked out Cuba Cane Sugar has expended in the three fiscal years to September 30 last, a total of $25,539,486 for betterments, rehabilitation and new property.

The effect of this expenditure upon the company's financial position has been to deplete working capital to the vanishing point. In fact, on September 30 last there was an excess of current liabilities over current assets of $2,035,580, the fluctuations in working capital being shown in the following:—

Working Capital

	1918	1917	1916
Current assets	$18,113,525	$17,104,489	$10,270,159
Current liabilities	20,149,105	11,438,969	7,256,324
	*$2,035,580	$5,665,520	$3,013,835

*Excess liabilities over assets.

In view of this working capital situation and the existence of a floating debt of $12,000,000, it is not impossible that Cuba Cane Sugar will decide to do some financing in the not distant future. The effect of this would be to wipe out the deficiency of net quick assets and give the company a sizable balance of working capital with which to handle its annual gross business now running at the rate of nearly $60,000,000.

It would seem probable that the current crop year, which has now started, will afford an accurate test of the wisdom and income producing possibilities of the $25,500,000 property expenditure which this company has made during the past three years. President Rionda in the annual statement lays great emphasis upon the decrease in loss of sucrose content in manufacturing and upon the gain in the sugar content of the cane. The former undoubtedly represents a real gain in manufacturing efficiency and if it can be continued would go a considerable way toward justifying the relatively large outlay which has been made on property betterments and extensions since organization.

It is interesting to know that of the $15,534,452 which Cuba Cane Sugar has expended upon its plantations in the past three fiscal years, $11,058, 674, or over 70%, has been devoted to the four Eastern plantations. The effect of this has been to increase the output of the eastern mills from 557,866 bags in the 1915–1916 year, to 1,175,399 bags in the year just ended. It is expected that the coming crop year will witness an output of over 1,700,000 bags from these four mills.

An analysis of the company's annual statements shows that the $25,539,486 expended for property account since organization has been obtained as follows:—

From surplus earnings above preferred dividends	$13,120,453
From depreciation funds	4,750,000
From decrease in working capital assets	7,049,415
Total	$24,919,868

It will be noted that the cost of production during the late year of 3.998 cents per pound, or practically 4 cents a pound, represents an increase of over ½ cent a pound, as compared with 1917. Inasmuch as the general average cost of production of the late crop year, taking Cuba as a whole, is understood to have been not much more than 3½ cents per pound, it is apparent that Cuba Cane Sugar must be classed as a high cost producer.

The current crop is to be sold at an average price of 5.50 cents per pound for north side ports and 5.54 cents for south side ports, an increase of .9 per pound, as compared with 1918. If the expectation of a 4,000,000 bag crop is realized, Cuba Cane Sugar in the 1919 year ought to realize a fair volume of profits provided that some further sharp increase in the cost of production does not occur.

It is understood that the construction program is now practically completed and that the outlay for this purpose during the current year will not greatly exceed $1,000,000 after allowing for the $767,000 of machinery and material on hand on September 30 last. If this proves to be the case, it should mean that Cuba Cane Sugar has turned the corner and that any surplus earnings hereafter can be utilized for the betterment of its financial position.

It would seem fairly obvious that discussion of common dividend possibilities has been postponed for several years to come.

AMERICAN COTTON OIL.—In view of the well-recognized shortage of fats throughout most of the civilized world outside of the United States, it would not be surprising if the next year or two were to witness a considerable demand for the products of such a company as American Cotton Oil, which manufactures as part of a considerable list of cotton seed products, substitutes for edible oils and for lard and butter.

American Cotton Oil up to two years ago possessed a business which contained a rather speculative element. This situation arose from the fact that the company was obliged to compress its purchases of cotton seed into two or three months, whereas the distribution of the products manufactured from cotton seed was spread over a 12 months' period.

There are good reasons to believe that this speculative side of the company's business has been in part eliminated and that hereafter the speculation in raw material will be far less than it has been in the past.

A study of the income account of American Cotton Oil during the past seven years shows that the balance of earnings for the $20,237,100 common stock, after taking out the 6% dividend on the $10,198,600 preferred, has been fairly uniform. In a broad way, the company seems to have enjoyed practically no stimulus to its warnings so far as any development arising from war conditions is concerned. The price of its products has been steadily advanced, but apparently no more than in keeping with the constant rise in the cost of cotton seed. In fact, the war and a succession of three short crops of cotton have conspired to put the price of cotton seed to nearly three times its normal level.

The study of the following condensed income account for the past seven years is of interest as showing considerable stability of earning power for the common stock:

Year to Aug. 31	Op. Net	Interest	Pfd. Div.	Bal. for Com.	% Common
1918	$2,327,995	$666,667	$611,916	$1,049,412	5.16%
1917	2,034,042	500,000	611,916	922,026	4.55
1916	2,524,291	495,833	611,916	1,416,542	7.00
1915	2,514,403	475,000	611,916	1,427,487	7.06
1914	1,487,623	475,000	611,916	400,707	1.99
1913	1,771,109	475,000	611,916	684,193	3.40
1912	2,401,498	475,000	611,916	1,314,582	6.49

American Cotton Oil has been paying dividends at the rate of $4 a share on its common stock for the past three years and the outlook favors the ability of the company to continue this rate.

As the result of its 1918 financing, when $5,000,000 additional one-year 7% notes were sold, American Cotton Oil, on August 31 last, the close of its fiscal year, was in excellent working capital position. After allowing for its Federal tax reserve of $500,000 the company had at that date, $20,021,596 of net quick assets, compared with $12,094,881 at the end of the 1914 year, an increase of slightly better than 65%. This increase was made possible through the issuance of $5,000,000 notes and the utilization of $2,787,000 of undivided earnings.

American Cotton Oil has maturing on the 1st and 3rd of September of this year $10,000,000 of one and two-year notes divided equally between a 7% and a 5% issue.

In view of the present high inventory total and the prospect that the recession in the prices of its essential raw materials will be rather gradual, it is not impossible that the company will decide to renew the entire $10,000,000 notes.

In that event the company's working capital would be sufficient to cover its $10,000,000 of notes and $5,000,000 of bonds at par and leave a balance of practically $50 a share for the $10,198,600 preferred stock.

The common stock at current prices shows an income return of about 9.1%. For the past nine months it has fluctuated within a four-point range. The apparent lack of interest in this issue is undoubtedly due, in part, to the fact that its margin of earnings, as compared with dividend distribution, is rather slender.

It is not impossible, however, that the company's record under peace conditions will permit an expansion in earning power which has been apparently denied it because of raw material conditions created by the war and by a succession of short cotton crops.

THE COPPER STOCKS.—It would seem as though the copper stocks had now reached a point where their purchase should be seriously considered from an investment standpoint.

We say this with a full realization of the fact that the copper producing industry, like all others having to do with the great staple materials, is passing through a period of readjustment; that, as yet, a market has to be established between the producer and consumer. The history of many decades has shown that the consumptive demand for copper is as consistent as that for any other raw material. For more than four years the users of copper have been deprived of a normal supply. The accumulation of copper, due to sudden withdrawal of war business, is considerably larger than before the war. A large part of this accumulation is locked up in process at smelters and refineries. From the point of view of the world demand these stocks of marketable copper are not excessive in that they are largely concentrated in this country, whereas in former times perhaps as much and more was carried by the consumers of the world in transit from this country; in European warehouses, and in the European consumers' plants. A comprehensive view of the situation looking at the proposition from the standpoint of supply and demand shows an excessive stock held here by the producers, but by contrast a much less than normal stock to supply the world demand when peace conditions are restored. The productive capacity of the copper mines of this country is little, if any, greater than would have been required by a normal increase in consumptive demand.

We believe that underneath the surface there is a very large pent-up demand for the metal which will be in evidence as soon as a free market is established. It is only logical to suppose that this copper will be furnished only as it can be produced at a profit.

To gain an idea of the profit that may reasonably be expected, we show for the larger producers, the average profit per pound actually obtained for the three years, 1912, 1913 and 1914 (during which copper averaged 15 cents per pound), and the earnings per share that would result if such a profit, which can be considered strictly normal, were to be applied to the production of last year:—

	Av. Profit per lb. 1912-14	Est. Production 1918	Earnings per sh. on 1918 Output and 1912-14 Margin of Profit	Current Price	Percentage of Earnings to Price	Present rate of Divs.
Anaconda	5.0c.	300,000,000	$6.44	60	10.7%	$6
Calumet & Arizona	7.4	51,500,000	* 8.00	61	13.0	8
Chino	7.1	75,000,000	6.30	33	19.0	4
Granby	4.0	37,000,000	10.00	80	12.5	10
Miami	5.2	55,000,000	3.80	24	15.8	4
Nevada Consolidated	6.0	79,000,000	2.30	17	13.5	3
Old Dominion	5.2	31,000,000	5.40	35	15.4	4
Ray Consolidated	5.6	83,500,000	3.00	20½	14.6	3
†Utah Copper	8.1	187,000,000	9.67	72	13.0	10

*Including Company's share in earnings of New Cornelia. †Including Company's share in earnings of Nevada Consolidated.

It will be noted that in the majority of cases such a profit would cover the present rate of dividends and in every case would amount to a very substantial percentage on the selling price of the shares.

CALIFORNIA PACKING.—The common stock of the California Packing Corporation is one of the comparatively few issues put out during the big War market of 1916, which has pretty consistently maintained a price level above the original offering price, and which has recently sold at a new high record.

This company was organized in October, 1916, as a consolidation of four concerns engaged in the handling of fresh, dried and canned fruits and vegetables, one of which was established in 1865. It also acquired over 70% of the stock of the Alaska Packers Association, which is the largest canner of salmon in the world. Later on the company acquired properties in Hawaii, so that now it is not only the largest factor in the salmon industry and California dried and canned fruit industry, but also a very important factor in the Hawaiian pineapple business.

The capitalization consists of $8,466,200 of 7% cumulative preferred stock, par $100, convertible into common at $66⅔ per share up to January 1, 1932, and 338,917 shares of common without par value. Regular 7% preferred dividends have been paid since organization. Payments at the annual rate of $2 were inaugurated on the common in June, 1917, and increased to $4 in June, 1918.

During the five years from 1911 to 1915 the net earnings of the companies which went to make up the present California Packing Corporation averaged $1,391,172 per annum, or the equivalent of about $2.50 a share on the common stock, after allowing for present preferred dividends. For the period from November 8, 1916, to February 28, 1917, the California Packing Corporation earned net profits of $1,086,522, which, after allowance for preferred dividends, was equivalent to about $2.75 a share on the common, or at the annual rate of, approximately, $8.25. In the fiscal year ended February 28, 1918, the company's business showed a marked expansion. Total net income came to $6,147,941 and the balance for the junior stock issue amounted to $16.39 per share.

It is noticeable that these earnings were after deductions for income and excess profits taxes of $1,300,000 by the parent company and $2,200,000 by the subsidiary Alaska Packers Association. Furthermore, there were expenditures during the year of $1,570,245 for additional properties, $440,667 for depreciation, and $434,458 for maintenance of properties.

The net earnings for the current fiscal year to end February 28 are estimated as much in excess of those of last year even after making allowances for possibly greater taxes.

The balance sheet for February 28, 1918, showed a net asset value for the common stock of $49 per share. Net working capital was $6,180,846, while notes payable stood at $4,371,350. Undoubtedly, with the expansion in the company's business this year's floating debt will be increased, but from the seasonal nature of the business financial requirements are large during the packing season. By March or April most of these loans are paid off.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 790 January 31, 1919

THE GENERAL MARKET.—There has been nothing in the action of the market to invalidate the theory that we are in a period of accumulation; on the contrary, as we look at it, the market's action strongly confirms this theory. For nearly three months now we have had nothing but a succession of unfavorable reports as regards industry. The last month these have been coming thick and fast. Yet all stock offerings have been easily absorbed without any large recession; in fact, it is noticeable that the leading stocks are very little lower than they were a month ago.

One of the essential features of this period is that war expenditures, which, after all, are chiefly an economic loss, are being rapidly tapered off, and people's savings are again being turned to productive channels. To be sure, there will be another Liberty Loan, for which each should make preparation, but by the time that this is offered, the money that it represents will have been spent. Its sale is, after all, nothing but a shifting of the load.

One of the things that is most necessary at this time, and that is taking place,—quite as important as the readjustment of prices and redistribution of labor, is the accumulation of capital. We refer not only to the liquidation of inventories, but to actual saving of capital from earnings. Funds from this source mount up rapidly, and now that they will be turned to productive uses,—will soon constitute a very appreciable influence.

The great problem now is that of labor. It is bound to keep one on the anxious seat for some time. Capital, however, is gracefully accepting a less return. Our leading corporation is paying now only a little more than half as much as it distributed for several quarters. Labor must, eventually, do the same. We are inclined to think that the lesson of the period will prove to be that labor should be made a partner with capital. It should be induced to take an interest in the business, and to share in the risk. Then it will learn that there are losses to take, as well as profits. As a matter of fact, the increased efficiency of labor is already noticeable, and as the cost of living declines, we anticipate that wage adjustment can be effected, without very serious disturbance.

In a very undemonstrative way, stocks of goods are being worked off. The cut in ocean freights is a decided forward step, inducing a freer movement.

We still hold to the belief, that the readjustment will be completed within a comparatively few months, and will be succeeded by a period of activity. We consider that, broadly speaking, stocks are cheaper than money.

BETHLEHEM STEEL.—Aside from the figures of earnings, which showed 21% earned last year on the common stock, there are three statements in the President's preliminary report to the shareholders that are worthy of attention. The first is to the effect "that funds for plant improvements were provided by note issue of last summer, and all other requirements for the present year, including maturities of existing obligations, are provided for." At the beginning of the world war, Bethlehem Steel was a comparatively small enterprise, with a stock capitalization of $30,000,000 and a bonded indebtedness of about $33,500,000. As the only company in a position to furnish large amounts of munitions quickly, it had a tremendous amount of business thrust upon it—more than it could swing with this capitalization. From time to time, therefore, it found itself obliged to provide for this by the issuance of additional securities, until at the close of 1917, it had a stock capitalization of $104,000,000 and a bonded indebtedness of $133,000,000. Naturally this very rapid expansion caused a good deal of uneasiness, while, marketwise, it undoubtedly weakened the position of its shares. Meantime, however, its working capital had increased in proportion; at the close of 1915 this stood at a little over $14,000,000, and at the close of 1917, at approximately $73,000,000. The provision for the maturity of its $50,000,000 of 5% notes by an equal amount of 7% notes was the first strictly refunding operation that the company had made in several years, the first in which there was no increase in its liabilities. At the end of 1917 the company had in addition to its funded debt, $81,000,000 of current liabilities. The statement that all requirements, including maturing obligations are provided for, is therefore particularly reassuring. Evidently, the company has reached the point where it has begun to consolidate its treasury position.

Second, is the statement that on January 1, after allowing for cancellations, the company had unfilled orders of $300,000,000 to $330,000,000. Naturally, this is very much less than was on the company's books at the "peak of the load." At one time last summer, it was stated that its unfilled orders amounted to $650,000,000. Nevertheless, even on the basis of the work actually completed last year, the present unfilled orders would amount to approximately eight months' business. As a matter of fact, now that the rush to get out work is over and overtime work has been eliminated, such a volume of orders would probably

carry the company very close to a year. In short, instead of being in a bad way for business, Bethlehem Steel, thanks no doubt to the foresight of the management in going largely into shipbuilding, is in one of the best positions of any industrial company to weather this period of readjustment.

Third, perhaps, in immediate interest, but of the most far-reaching importance of any of the statements, is that to the effect that with the completion of the plant expansion program, the company will have an annual capacity for steel output of more than 3,000,000 tons, with finishing plants of sufficient capacity to convert this entire tonnage into commercial products. In the manufacture of munitions and the building of ships, Bethlehem Steel has undoubtedly been of more direct value to the Government in the prosecution of the war than any other one company. This has given many the impression that Bethlehem Steel was almost altogether a war proposition, and that with the coming of peace its business would be comparatively limited. The statement has been repeatedly made that of the increase in capacity there is only a very small percentage which could not be readily converted to industrial uses. Now, we have the direct statement that the company will be able to produce 3,000,000 tons of commercial steel annually. A normal profit on this, after depreciation of $10 a ton, would give the company an operating income of $30,000,000. Deducting from this, $8,000,000 of taxes and $11,000,000 for interest charges and preferred dividends would leave a balance of $11,000,000, or approximately 20% on the stock.

The fact remains that Bethlehem Steel has reinvested in the business, from the profits of the last four years alone, over $80,000,000, a sum equivalent to approximately $135 per share on the common stock as the capitalization stands today. At the close of 1917, the value of the plant, after a liberal allowance for depreciation, was carried on the books at $187,000,000, in addition to which the company had net quick assets of $73,000,000, a total of $260,000,000. To pay the $17,000,000 required for interest charges, preferred stock dividends and 10% on the common stock would call for earnings of less than 7% on this valuation.

RAILWAY STEEL SPRING.—The fiscal year of Railway Steel Spring ending December 31 last was easily the best in the company's history. It is possible that the final figures of net may show a balance for the $13,500,000 common of something less than $32.32 per share earned in 1917. But if this proves to be the case it will be because of very drastic reserves made against earnings on account of income and excess profits taxes.

In 1917 Railway Steel Spring earned $5,598,968 for interest and dividends after depreciation and after setting up $3,500,000 for taxes. Not all of this heavy reserve for taxes was required. In spite of this fact the company has calculated its 1918 earnings on the basis of a $5,000,000 tax requirement. It is doubtful, however, if the law as finally passed will require as much as $4,000,000. If tax payments do not exceed $4,000,000 the final net for the common after 7% dividends on $13,500,000 preferred should slightly exceed last year by perhaps 2 or 3%.

It is, of course, appreciated that the broad effect of the prosperity which Railway Steel Spring has enjoyed for three years has been to effect a radical betterment in its financial position.

On December 31, 1914, Railway Steel Spring had $6,628,000 bonds outstanding. Today it has no bonds whatever and the saving in interest and sinking fund charges amounts to an annual sum equivalent to nearly 3½% on the common stock.

Prior to the war, Railway Steel Spring was doing busines with a working capital fluctuating between $4,000,000 and $4,500,000.

Even at the end of 1917 the working capital assets were but $5,896,009, after including as a current liability $3,500,000 for taxes.

The December 31, 1918, figures should show net quick assets of at least $11,000,000, a sum equal to $81 per share on the preferred. Considering the fact that all through its war period Railway Steel Spring has been able to avoid creation of any floating debt and has accumulated $4,000,000 to $5,000,000 of Liberty Bonds and other investments it would seem as if, with the return of more normal prices for raw materials, the company would in time actually have more working capital than it needs.

One of the strong features of the equipment group as a whole has been the heavy carryover into 1919 of unfilled orders. This is notably true of American Car & Foundry, American Locomotive and Baldwin Locomotive.

It is equally true of Railway Steel Spring, which on January 1 had unfilled orders sufficient to keep its steel spring, tire and tired wheel plants in operation until some time in August. With any kind of buying orders developing during 1919 this company ought to have a fourth year of satisfactory earnings in the 12 months to December 31 next.

NOVA SCOTIA STEEL.—The announcement that the Nova Scotia Steel Company has closed down its plant has, naturally, caused some uneasiness in the minds of shareholders not fully conversant with conditions.

The Nova Scotia Company has been engaged largely in work for the Canadian Government, for which it has been one of its most valuable manufacturers of munitions. Now that the war is ended, the Canadian Government is not, at the moment, in a position to distribute any additional business, and the commercial buying of steel has not started up in Canada any more than it has for copper or steel in this country. Just as it is inevitable that commercial buying of steel shall revive shortly in this country, so it is inevitable in Canada, and when it does, the Nova Scotia Company is in a position to get its full share of the business.

Meantime, there would seem to be a favorable opportunity to make such repairs as are necessary because of the high pressure at which the plant had been operating for several years past, and to do a certain amount of new construction work.

It should also be remembered that the labor situation in Canada had become even more severe than that in this country, and it was felt that with some respite, this condition might be considerably ameliorated.

The basic reason why those in control of this property took an interest in it was the exceedingly large deposit of iron ore which it was believed could be made the basis, not only for a large manufacturing enterprise, but for an ore export business, both to this country and abroad.

This is quite as true now as it was at the time that the present interests took control, and with a gradual return to normal conditions in shipping and labor, there is no reason why the very large possibilities in both directions should not, ultimately, be realized.

In fact, so far as the property is concerned, the company is in a position to deliver a much larger amount of iron ore than it has ever produced before.

Meantime, the company is in a very strong position to go through with such a period, with no loans and with net quick assets of over $10,000,000, of which one-half is virtually in cash.

NATIONAL ACME.—For the final quarter of the year, the net earnings compare very closely to those of the same period in 1917,—$1,514,000 in 1918 as against $1,493,000 in the previous year. These earnings are before the set-up for excess profits taxes.

For the entire year it seems probable that net earnings before taxes will compare closely with those of the previous year.

The closing of the year found the company in very strong financial position, with net quick assets of $9,518,000, an increase of $660,000 over those at the close of 1917.

UNITED STATES STEEL.—The first impression that the quarterly report makes is the way in which the excess profits tax works out as a counterbalancing factor. In the final quarter of the year, the operating profits were $86,354,000 as compared with $144,949,000 in the third quarter, a decrease of over $58,000,000, but the net earnings so far as the shareholders were concerned,—that is after the deduction of taxes, were $36,354,000 as against $42,961,000, a decrease of only $6,500,000.

To be sure, of the $102,000,000 assessed in taxes against the earnings of the third quarter, only $57,000,000 applied to the earnings for that quarter,—the balance of $45,000,000 being allowance for additional taxes for the whole of the first nine months. Nevertheless, this does not vitiate the general principle of the evening-up influence of excess profits taxation. It brings out the fact that with much less of an operating profit the stockholders will be nearly as well off, so far as their company's net revenue is concerned, as taxes gradually decrease.

It would also seem to bring home the fact that very much the easiest way to collect the cost of the war is to allow large profits to the industrial corporations, and then to take a reasonable part of them away from them in taxes, but that too heavy a deduction would defeat the very object aimed at.

Evidently the tax deduction for the last quarter of the year comprises a full charge for that quarter, as it is noticeable that with an operating profit of $86,000,000 there was a war tax of $50,000,000, while in the first quarter, with an operating profit of $88,500,000, the allowance for war taxation was but $31,500,000, necessitating an additional allowance in the two following quarters.

Next to the tax feature, the most noticeable thing is the sharply declining tendency in the earnings. No better picture could be given of the rise and fall of war-time earnings than the figures of the Steel Corporation's earnings the last four years, which were as follows:—

1915	1916	1917	1918
9.96	48.48	39.15	22.02

The figures of monthly net profits show an unmistakable decrease from the middle of 1918; net earnings, in fact, show a progressive monthly decrease beginning with July, and the December earnings of $10,834,882 were the smallest of any month since May, 1915. No doubt, by this time, they are on a still lower basis, and one must be prepared for very small figures for the first quarter of this year.

One must, however, take a much broader view of the business than this if he hopes to invest or speculate successfully in the shares of this, or, for that matter, any other company. The fact remains, that in the 18 years since the formation of the Steel Corporation in 1901, this company has earned, over and above all dividends, and has reinvested in the business in one form or another, the enormous total of $728,000,000, equivalent to $143 per share on its common stock.

If we assume, therefore, that at the time of organization this had no asset value, it is worth at least this in physical and financial assets today. Of this amount, $80 per share has been earned and reinvested in the last four years. This, it should be noted, is after making due allowance for the extraordinary cost of facilities installed by reason of war requirements.

Relatively speaking, the Steel Corporation has done very little new construction during the war period; in fact, the increase in the fixed property value on its books between 1914 and 1917, has been only $64,000,000. The profits have gone chiefly to strengthen its treasury position. Thus, during the same period, there was an increase in its working capital of over $230,000,000, cash alone rising from $62,000,000 to $233,000,000 and further, is a decrease in its bonded indebtedness of over $40,000,000.

This policy will surely stand the company in splendid stead during such a period as it is now passing through. Thereafter, with the revival of business, in order to show $9 per share on its common stock, the company would have to earn a return on the actual amount reinvested in the business from surplus earnings, of only 6.3%.

WORTHINGTON PUMP.—Worthington Pump has carried over into 1919 a very creditable total of unfilled orders and a volume of work considerably larger than seemed probable at one time. This total of unfinished business amounted on January 1 to about $21,000,000 or sufficient to insure operations for nearly seven months.

Naturally Worthington Pump has been booking new orders at a much smaller rate since the armistice was signed, but it is noteworthy that new business for three months has been coming in at the rate of $15,000,000 per annum, which prior to 1914 would have been considered a strictly normal annual turnover for this company.

The question of how net profits for the $12,992,149 common will work out for the December 31, 1918, fiscal year, is very largely a matter of taxes and depreciation. The company was naturally carrying at the time the armistice was signed a larger than normal inventory of about $17,000,000. It would be nothing more than sound business judgment if a heavy charge against earnings were made against a prospective shrinkage in this inventory.

For this reason any exact forecast of net results for the year is impossible. But the expectation of a common stock balance after taxes depreciation and preferred dividends of $25 per share, is not unreasonable. The use of pumps is so universal in industrial American and the domestic demand has been so largely unsatisfied for nearly two years that it is believed inevitable that Worthington Pump will have an active demand for its products as soon as price readjustments have been completed. The wear and tear on American industrial equipment should logically produce free buying of pumps and accessories.

ATLANTIC GULF & WEST INDIES.—Perhaps never before has the fallacy which persists in grouping Mercantile Marine preferred and Atlantic Gulf common as kindred and affiliated companies been more strikingly illustrated than in this week's decline in these two stocks.

Mercantile Marine has broken not unnaturally on announcement of a drastic reduction in ocean rates. If the cut amounts to 66% as has been stated, it is inevitable that earnings of this combination will be adversely affected.

But when the speculative fraternity jump to the conclusion that because Mercantile Marine is to get a smaller compensation for its services it must follow that Atlantic Gulf is to suffer in similar measure they indulge in a bit of superficial analogy which is directly contrary to the facts.

Mercantile Marine is a trans-Atlantic proposition. Its rates were enormously increased by war and are now apparently to be radically lowered because Britain is getting ready to secure large stocks of raw materials transported at a reasonable rates per ton.

Atlantic Gulf is a coastwise and West Indian shipping company. Its rates to date have not been reduced by even a fraction of 1%. Its lines are in part subject to the rates of connecting railroads and in part are under the supervision of the shipping board.

Atlantic Gulf is a purely American enterprise and is outside the sphere of influences regulating trans-Atlantic rates. It seems a fair inference that so far as 1919 earnings are concerned the deciding factor will be volume and not rates per ton. The outlook is favorable for another year of satisfactory profits in 1919. The only thing that could seriously affect the volume of freight offered would be a recession in business in Cuba and Porto Rico. On account of the strength in sugar, the principal product of those islands, it seems likely that they will be among the last places where there is any let-down in general business.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 791 February 7, 1919

THE GENERAL MARKET.—Such action, or rather lack of action, marketwise, as we have seen the past week calls for little comment. After all this is the best news possible under present conditions. The very fact that stocks are not offered for sale proves that the present period of industrial activity during the readjustment process was forseen and, therefore, discounted, and that the only thing that can force prices materially lower are still worse conditions. But industrially so far as forward business is concerned conditions could not very well be worse without actual destruction of property. Barring then an era of violence, which, after all seems most improbable, it is difficult to conceive of any further seriously depressing influences.

One of the benefits that should accrue from this period of dullness—with its opportunity for reflection—is the crystallization of sentiment against public ownership and operation, as the facts become more fully known. The Government, in spite of an increase in railroad rates, amounting to 40%, finds itself in the hole to the extent of $250,000,000. It is pretty safe to say that if the railroads had been under private operation and had been granted any such increase in rates, there would have been no such deficit. On the contrary, there would probably be such a surplus that, already, there would be a clamor for a reduction in rates.

Who, then, benefits from Government operation? Certainly not the public, who have not only to pay the increased rate, but have to foot the bill for the deficit. It might be argued that the shareholders benefit to a certain extent because of the assurance of fixed dividends during a disturbed period. Aside from the fact that only a small minority actually have Government contracts, so that there is still a good deal of uncertainty, stockholders not only have, indirectly, to foot their proportion of the deficit through taxation, but they have seen net earnings of their properties shrink so alarmingly that they have good reason to fear the threat of having their properties immediately forced back on them without proper adjustment. A table, showing actual earnings for 1918, as compared with dividends paid, would show some startling results.

To continue railroads under Government operation would, to be sure, involve some sort of a guarantee to the shareholders, but it would also banish any initiative in new construction, and the shareholders could get the same returns under private ownership, at a much less cost. Perhaps the only real beneficiaries of Government ownership have been the employees, and even these have seen the cost of living advance to such a degree as largely to offset increased wages. We are not arguing against the wisdom of taking over the railroads as a war measure, but now that the necessity is passed, why continue unbusinesslike methods in the running of a great business?

The steamship companies, whose properties are being returned likewise find their organizations demoralized, wages recklessly increased, etc. In short, it will take a long time to recover from the baleful effects of even such a short period of Government operation.

In short, the experience of even one year has proved Government operation to be wasteful and inefficient, and the public must pay the bill.

The statement of the copper-producing interests brings home the need for readjustment. Such action as this, and the reduction of dividends by several prominent companies, shows that capital, at least, realizes that the war is over. The necessity for scaling down all around, for realizing that war conditions cannot continue, is absolute. The important things are that all should bear, as equally as possible, their share in the readjustment, and that any tendency toward trouble-making during this period should be firmly restrained.

Given these two, and we shall pass quickly through this period.

We have the raw material, the labor and capital, to do a big reconstruction business; only a very short-sighted policy on the part of labor or law makers can prevent it, and this we are hopeful will not be the case.

THE PHILADELPHIA COMPANY.—The advance in the common shares of this Company, following the publication of earnings for December, emphasizes the fact that unlike most public service corporations, the earnings of this Company are not all drawn from one source but are spread over a wide field, and derived from several different kinds of operation, so that whenever there may be some falling off in one department it is made up in another; thus, although the Philadelphia Company is the owner of the Pittsburgh Traction System, which, like most of its kind, has experienced great difficulties during the last few years, the decreased revenue from this source is more than made up by the large expansion in the sales of natural gas.

The December gross revenue increased $476,000, from $2,233,000 to $2,710,000, while the net earnings rose from $828,000 to $1,239,000, a gain of $410,000, or approximately 50%. In the nine months from the close of the fiscal year on March 31, 1918, the gross earnings showed a gain of $3,000,000, and the net earnings of $1,948,000, or 30%. Of this gain in net earnings, nearly one-half was made in the last two months, and most of it is represented by the Natural Gas Department. The official statement shows that for the 12 months ended December 31, 1918 (the fiscal year has been changed to correspond with the calendar year), the Company had a balance over fixed charges of $4,933,000, being decidedly the largest in its history. This is something that is true of exceedingly few companies that come under the head of "Public Service," and emphasizes the very well balanced nature of its revenue. These earnings, after deducting preferred dividends, were equivalent to over $5 a share on the common stock.

As a matter of fact, the Company has a dividend record that entitles the common stock to a high rank as an investment issue. For 24 years, with one exception, it has paid continuous dividends on this issue, and in only two years during this period has it paid less than $2.50 a share. For the last 16 years it has paid not less than $3 a share, which is the present rate. The stock, now selling around 32, is the same issue that in former years has sold regularly from $40 to $50 a share.

Now that the Company has not only demonstrated that favorable distinction should be drawn between this and other so-called "Public Service" issues, in that, during this war period, any decrease of earnings from its traction investment is more than counterbalanced in other directions, but is also now showing a revenue in excess of normal years, it would seem as though the stock should again enjoy at least a normal rating from an investment standpoint.

MIDVALE STEEL & ORDNANCE.—In view of the end of the war and the resulting cancellation of contracts, it was, of course, to be expected that the earnings of this corporation during the final quarter of 1918 would show some decline from the level that has been maintained for the past two years. Net profits after all deductions for taxes amounted to $5,023,997, or the equivalent of $2.51 per share on the 2,000,000 shares of stock. In the September quarter a net of $7,793,627, or $3.89 per share, was reported, and in the corresponding three months of 1917 the balance for the stock was equal to $5.44 per share.

From the December, 1917, to the December, 1918, quarters, net earnings were cut in halves, and yet the last three months of 1918 showed profits at the annual rate of $10 a share—a rate which would not seem to immediately endanger the present $6 dividend.

In its three full years of existence, the Midvale Steel & Ordnance Company has earned a total of $48 per share for its stock and has paid out $12 in dividends, leaving a balance of $36 a share, which has been turned back into property.

UNITED FRUIT COMPANY.—All the signs are favorable for another year of remarkable earnings for United Fruit in the fiscal 12 months to September 30 next.

In the 4 months to February 1 net profits of United Fruit were nearly 41% in excess of the same period in the 1918 fiscal year. While this percentage of gain obviously cannot be maintained, it would not be at all surprising if the net profits of the current year at least equalled the $24,830,041 earned for interest, taxes and dividends in the 12 months to September 30 last.

United Fruit has now reduced its bonded debt to only a trifle over $2,000,000. And against these $2,000,000 bonds, which it has offered to buy at par it has reserved an equal amount of cash. By midsummer there is a very good chance that the last of its bonded debt will have been retired.

It is interesting to know that aside from its cash reserved for bond redemption United Fruit has a present cash balance of over $17,000,000.

It is not generally appreciated just how remarkable has been the gain in United Fruit's financial strength since 1915. In that year there were within $3,000,000 as many bonds and notes as stock. In 3 years $33,359,168 of bonded debt has been cancelled with an increase in stock for this purpose of but $10,000,000. There has been $13,697,200 of new stock issued in the past 3 years, but the bulk of the new stock above the $10,000,000 used for note retirement was for the purpose of acquiring Nipe Bay Company minority shares.

Prior to the war United Fruit had never been noteworthy in its working capital position. In fact, in 1915 the working capital was less than 25% of outstanding bonds. On September 30, 1918, there was a working capital balance equal to par for its bonds and $63 per share in addition for its stock. All of these changes are very well pictured in the following:—

	Sept. 30, 1918	Sept. 30, 1915	Increase	% Increase
Bonds	$5,061,687	$33,359,168	*$28,297,481	*84.8
Stock	50,316,500	36,619,300	13,697,200	37.4
Total capital	55,378,187	69,978,468	*14,600,281	*20.8
Working capital	36,064,642	7,702,875	28,361,767	368.2
Share	62	—	62	—

*Decrease.

United Fruit has paid off the last of its steamship obligations. It owes no money against its 188,000 tons of refrigerated boats.

United Fruit is unique among industrials in that it has no inventory problem. In fact it is the reverse of manufacturing companies in that its inventory is minus normal proportions. By this we mean that the effect of the war has been to cause the company to allow its tropical fruit lands to run out so that its available supply of fruit is smaller than it should be if it had normal steamship facilities with which to handle this fruit.

To remedy this minus situation United Fruit will have to spend several millions in bringing its tropical plantations back to full bearing.

United Fruit has plainly reached a position where its directors have a very sound basis upon which to found an enhanced distribution to shareholders. Logically this should come during 1919.

NEW YORK AIR BRAKE.—During the past week New York Air Brake shares as a result of relatively heavy selling pressure have been driven down to 91¼, the lowest price since 1915 and 95 points below the 1916 high of 186.

The fiscal year of New York Air Brake to December 31, 1918, was the second best in the company's history from the standpoint both of gross sales and per cent. of earnings for the $10,000,000 stock.

The signing of the armistice naturally has led to a suspension of work on the gun carriages, shells, fuses and cartridge cases the company was making for the Government. The Government contracts remain to be adjusted. The adjustment will give New York Air Brake an undoubted profit of considerable proportions. But even disregarding any credit to accrue through adjustment of war contracts Air Brake earned in 1918 above charges and taxes a balance of $20 to $22 per share for its stock. How this compares with previous years is shown below:—

	1918	1917	1916	1915
Per cent. stock	22%	18.9%	82.1%	13.4%

Gross sales in the late year are understood to have reached a total of about $11,000,000, comparing with $10,157,038 in 1917 and the record gross of $25,051,103 in 1916. It is understood that the larger part of 1918 sales represented regular Air Brake production.

Measured by past performance it is undeniable that Air Brake cannot be expected to continue the $20 per share dividend disbursement which it paid during 1917 and 1918.

A regular $10 dividend, on the other hand, is not at all an unreasonable expectancy. In fact, with the broadly favorable outlook for the equipment business during the next three years, New York Air Brake ought to be able to continue a $10 dividend which calls for but $1,000,000 net profits above the $180,000 of interest on the $3,000,000 first mortgage 6s of 1923.

New York Air Brake is naturally carrying considerable bank loans on account of its Government work. These loans, which aggregate between $4,000,000 and $5,000,000, should automatically liquidate themselves as Government contracts are adjusted. In that event New York Air Brake would have no bank obligations and would possess a working capital equal to $50 per share on its stock.

The company has a good-sized volume of domestic orders for air brakes. This work is sufficient to insure a fair basis of operations for several months to come.

The Westinghouse Air Brake and New York Air Brake interests are both hopeful of a very substantial foreign business. European and other foreign railroads do not have the splendid air brake equipment possessed by American roads. The field of sale is, therefore, practically world-wide and would seem to offer attractive opportunities of indefinite cultivation particularly as the Webb law has made it possible for these two American companies to co-operate in going after export business.

Air Brake has, of course, a much larger plant equipment than it can normally use for its regular air brake production. The company is considering going into other lines of production, but so far no definite selection has been made.

GENERAL ELECTRIC. CO.—The fiscal year of General Electric ended December 31 was productive of the largest bulk of business in its long history. The amount of goods shipped out to customers reached a total of about $220,000,000, compared with $196,926,317 in 1917 and $134,242,290 in 1916, a gain in two years of approximately $86,000,000, or 64%.

Prior to 1914, with a single exception General Electric had never handled as much as $100,000,000 of gross in any single twelve months. In fact, it has been the general impression that the present productive capacity of its plant system was less than $200,000,000 per annum.

The pressure on General Electric for quantity output was so keen during all of 1916, 1917 and 1918 that the company was forced into very material plant expansion. In 1917, for example, $22,320,895 was expended on land, buildings, tools and machinery. On account of high prices for labor and materials, $13,287,249 of this expenditure was immediately charged to depreciation.

In 1918 the bill for plant additions did not vary materially from that of 1917 and the same policy of charging the excess cost to depreciation was pursued.

Because of the fact that General Electric for years has not issued new securities for any other purpose than additional working capital the proportions of its plant growth have never received the emphasis they deserve.

General Electric, in point of fact, had a capacity to produce in 1918 a total of $240,000,000 of apparatus based on 1918 prices.

Its incoming orders since the signing of the armistice have naturally shown a sharp decrease, but the decline is much less severe than has been rumored. New orders have been coming in at a rate 65% of 1918 bookings. The 1919 year can hardly hope to duplicate 1918 either in gross sales or net profits. But it has been the history of General Electric in the past that its business quickly bounds back again and that its periods of depression are neither severe nor protracted.

Meantime the company has protected its inventory situation by conservative charge-offs and liquidation of its investment in inventory may reasonably be expected to furnish funds to retire the $10,000,000 6% notes coming due on December 1 of this year.

NEW HAVEN.—The details of the New Haven expense account for the year ended December 31, 1918, present a rather interesting commentary on the results of Government operation of the railroads.

With the largest gross revenue in its history $102,000,000, as compared with $85,000,000 in 1917 and $65,000,000 in 1915, the company was able to save for net only $14,567,688, as against $23,814,833 in the preceding year, and did not come within several million dollars of covering its fixed charges figured on the 1917 basis. The operating ratio reached 86%, whereas the highest figure in the past decade had been 73% and the average had been in the vicinity of 67%.

The 1917 year set up new records in the expense of operation, but these were far exceeded in 1918, as may be seen from the following:—

	1918	1917	Increase	% Increase
Gross operating revenue	$102,294,211	$85,784,892	$16,509,319	19%
Maintenance of Way	13,525,533	9,019,344	4,506,189	50
Maintenance of Equipment	20,913,412	12,191,351	8,722,061	71
Transportation	48,020,080	36,380,373	11,639,707	32
Other expenses	5,287,498	4,378,992	908,506	20
Total operating expenses	87,746,523	61,970,060	25,776,463	41
Net operating revenue	14,547,688	23,814,853	*9,267,141	*38
Net operating income	7,534,334	15,351,474	*7,817,140	*51

*Decrease

It might be expected that owing to the wage increases granted during the year, the transportation costs would show the largest increase. They did show the largest absolute increase but the percentage was only 32%, while maintenance of way and equipment jumped 50% and 71% respectively.

Presumably the principal part of the wage advances are included in the item of transportation costs. The exceptional increase in maintenance charges is, of course, due partly to greater costs of labor and materials, but even allowing for that it would seem as though the increase is so large as to indicate considerably greater improvement to property than in the preceding year.

Of course, the New Haven, like most other roads, particularly in the Northeastern territory, had a number of adverse circumstances to contend with in the 1918 fiscal period. The year began with extremely cold weather, which interrupted traffic and entailed a big expense. Fuel was scarce and expensive. Then again the wage grants made later in the year were made retroactive to January 1, while rate advances did not begin until about July 1. Thus in the last half year a portion of the increased earnings has gone to pay wages accrued in the first half year.

It might be expected, therefore, that during the current year expenses of operation will show a relative decline, although it must be admitted that a deficit after taxes in both November and December is not particularly encouraging.

Under the Government guarantee the New Haven is thought to be assured of a net income of about $16,800,000 which, after deductions, is equivalent to approximately 2% on the $157,000,000 of stock. The company has petitioned for additional compensation of $2,000,000 because of expenditures made and charged to earnings during the three years ended June 30, 1917, and on account of adjustment of car hire. No announcement has as yet been made as to whether or not any of this additional sum will be allowed, but even if it should all be granted, the guaranteed percentage on the stock would be only about 3.3%.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 792 February 14, 1919

THE GENERAL MARKET.—Among the most interesting features at the moment are the annual reports for 1918 that are now beginning to appear. Several of these have been quite disappointing. It must be frankly stated that many of these reports should be taken with a grain of salt. Due to a perfectly natural and legitimate desire to protect their accounts, so far as possible, from falling commodity markets, and the possibility of insufficient tax allowance, no doubt the charge-offs on both these accounts have, in many cases, been heavier than really necessary. This simply means that the accounts for this year will benefit by surplus amounts charged off for last year. It is a satisfaction to have the tax bill now practically agreed on and uncertainty on this score eliminated. While the tax against business, as embodied in this bill, is certainly tremendous, it must be remembered that this is a tax for business that has already been done; the tax against business for the current year will be less and for the future years will, no doubt, gradually diminish. It can be easily demonstrated that the profits of many businesses could fall off this year as much as 25% from last year and still show, after taxes, more remaining for the shareholders.

Speaking of earnings, we believe attention should be called to the enormous returns of the Federal Reserve Banks, particularly in view of the notoriety that is being attached to the earnings of some of our larger industrial companies—especially those of the packers by the Federal Trade Commission. The New York Federal Reserve Bank, substantially a Government institution, reports earnings for last year of no less than 109%. One would hardly accuse this institution of "profiteering." Such earnings are simply the very natural and legitimate result of doing a tremendous volume of business on a comparatively limited amount of capital. This, we believe, is the whole sum and substance of the unusually large earnings of many industrials. The earnings of the Federal Reserve Bank show that large returns are not necessarily in themselves illegitimate; on the contrary, so far as they constitute the chief source of war tax revenue, they are to be welcomed. Without them, indeed, it would have been practically an impossible task to pay for the war.

Buying has begun to appear in small quantities, but as yet has not attained any considerable volume. There is no doubt, however, that the producers and consumer are very much nearer together than they were a month ago. It must be remembered that it has been the immemorial custom of our merchants and manufacturers not to buy on a falling market; not until they felt sure the bottom had been reached. The result has always been, and no doubt will be so in this case, that the great bulk of the purchases will take place not at the bottom but after there has been a considerable recovery.

It must be borne in mind that the relatively greater increase in the foreign cost of production places this country in a better position to compete for the world's business. Demand from this source is likely to materialize at any moment, but it is quite certain that it will not be in evidence until we are prepared to do the business on a long-time credit basis.

The avidity with which new offers are snapped up shows that there is plenty of money for investment, and this will, no doubt, increase as inventories are liquidated. Coincidently, the decline in Government bonds also shows clearly that securities must meet an investment basis to be absorbed.

We are approaching the time of year when new business is, normally, taken on. Though things today are very quiet with jobbers and manufacturers, pending the absorption of stocks acquired against war's possible needs, we understand that the retail trade is active, and this should soon absorb the present available supplies.

The stock market will not wait for any general resumption of business; to operate successfully here a man must think ahead. So far as we can see, there is a prospect for a large enough business to warrant considerable optimism on securities.

AMERICAN SUGAR.—The recent market action of this stock would seem to indicate that the disappointing results which have featured several industrial reports for 1918 will not be present in the case of this company.

There are four features in the report that will be observed with particular interest. First, the operating profit. The sugar refining business last year was conducted on a fixed margin. This was first set at 1.30 cents per pound—but was later increased, and now stands at 1.54. This compares with 1.07 in 1916; .91 in 1915, and .86 in 1914. While undoubtedly the cost of operation very greatly increased, it would seem as though the greater margin of profit allowed must have gone a long way in offsetting this. Thus although the element of speculation in raw sugar, in which the company in years long gone by obtained a large part of its profit, was absent, it would seem as though its actual manufacturing profit must have been fairly satisfactory.

Secondly, the question of charging off against inventories which has bothered so many industrial concerns is entirely lacking in the case of American Sugar. Of its total assets at the close of 1917 of over $137,000,000, only a little over $9,000,000 was in inventories, so that if the business had been conducted on the usual basis there would have been very little to charge off on this account, even if there had been some decline in the price of the commodity. As it was, with the price set at a fixed rate, and the Government guaranteeing to take over the output at a fixed price, there could not have been any occasion to make allowance for this item.

This brings us to the question of income from its investments. In 1917, the amount received from this source was $3,130,000, and this was after charging off the decrease in the market value of the securities held—an item which also must have been lacking in 1918. At the close of 1917 the company had actual cash on hand of over $40,000,000. With both raw and refined sugar at a fixed price there was no occasion at any time to carry a large inventory, and it would seem as though hardly more than a quarter of this amount could very well have been used in the operation of its business. If we assume that $30,000,000 of this was free for investment, this—added to its other investments—would make a total investment fund of some $66,000,000, on which, if the company received even 6%, its income from this source should have been in the vicinity of $4,000,000. From its holdings in Great Western Sugar alone the company received over $2,000,000 in dividends.

Finally, we come to the question of appropriations. In 1917, American Sugar allowed for depreciation and for various reserves, a total of $6,000,000, which compares with an average for the previous four years of less than $2,000,000. No doubt the tendency will be to charge off as heavily as possible, but due allowance should be made for this in estimating the actual income for the shares.

At 116, American Sugar, though paying $10 per share, is selling for less than the average pre-war price when it paid but $7. It is one of the few industrial stocks in which, marketwise, there has been no war stimulation, let alone inflation.

AMERICAN CAN.—The annual statement of American Can for its fiscal year to December 31,1918, adds one more to the list of disappointing industrial reports. The net earnings before depreciation of $17,076,335 were $4,918,707, or 22% smaller than previous year. The charge to depreciation of $3,500,000 remained unchanged from 1917. On the other hand the reserve for Federal Taxes was increased by $1,000,000 to a total of $7,000,000, which it is believed will fully cover the necessary payments on this account.

The final result was a balance for the $41,233,000 common stock of $3,114,495, a decrease of $5,892,033, as compared with the previous year, leaving a surplus for the common of $7.55 a share compared with $21.84 a share in 1917 and $12.31 in 1916.

President Wheeler, in his remarks to shareholders, makes a point of the fact that owing to the uncompleted state of some of its Government shell work only a portion of these munition profits were taken up into 1918 account. It is understood, however, that of the total net earnings of $17,076,335 between $6,000,000 and $7,000,000 were derived from shell work and this business will naturally not be duplicated in 1919 except insofar as there has been a carryover of uncompleted or unadjusted munition work.

At the end of 1918 American Can had a net working capital of $28,510,350, a decrease of $1,643,989, as compared with December 31, 1917, a shrinkage of 6%.

During the year the company increased its bills and accounts payable from $11,215,651 to $16,633,240, an increase of $5,417,589, or an advance of 45%. All of this money apparently went into enlarged inventories, which at the end of the late fiscal year amounted to $35,484,402, an increase of $11,347,919, or 47%.

This heavy increase in inventories constitutes one of the unfavorable aspects of the company's annual statement. It would seem to indicate that the company is carrying a relatively heavy amount of tin plate and other essential raw materials, the shrinkage of which may conceivably be considerable during the next 12 months. At the present time the price of tin plate is $7.35 a box compared with a level during the most of 1918 of $7.75 a box.

At one time during 1918 American Can had outstanding over $25,000,000 of bank loans. This amount was apparently reduced by about $10,000,000 before the close of the year, so that the bills and accounts payable item of $16,633,000 on December 31 represents a very considerable decrease from the high point.

On the other hand, until the inventory total gets back to something like normal of say $12,000,000 to $15,000,000, it is apparent that the company must continue to owe considerable money to the banks.

Pending the adjustment of this matter it would seem as if any discussion of common dividends was entirely outside the realm of probability.

NEW YORK, CHICAGO & ST. LOUIS.—Under the terms of the Government guarantee it is estimated that the New York, Chicago & St. Louis R. R. will receive a net income of, approximately, $2,225,304. On the basis of the 1917 other income and fixed charges, this would mean a balance of something between 1% and 2% for the $14,000,000 of common stock, after allowing for the 5% dividends on the first and second preferred issues.

Up to 1918 the best year that the company ever had from the standpoint of earnings on the stock was 1910, when 8.27% was reported for the common. The year just ended, however, will considerably better the record established in 1910. Net operating income for the twelvemonth ended December 31 last, amounted to $3,834,512, as compared with only $2,117,759 the year before and $2,225,304 average

for the three years ended June 30, 1917, which is the basis of the Government remuneration. Assuming that other income and charges are the same as in 1917, the final balance actually earned for the common shares should be equivalent to about 12% to 13%.

The development of business by the Nickel Plate during the past three years has been quite remarkable. From 1908 to 1915 gross revenue remained almost stationary in the neighborhood of $11,000,000 to $12,000,000. With the tendency of operating expenses upward, it will be readily appreciated that the surplus earnings remaining for the stock averaged higher during the first half of this eight-year period than in the last half. In the past three years, however, gross has steadily mounted, reaching the record figure of $22,656,381 in 1918. It is this increase in gross which is largely responsible for the splendid showing of last year, although great credit must be given the management for keeping down expenses. The operating ratio last year was only 77.5%, as against 78.5% in 1917 and 74.4% in 1916.

The Nickel Plate operates only 523 miles of road extending from Buffalo to Chicago. It has no branch line feeders and a large part of its mileage runs parallel to and only a short distance away from other trunk lines. Thus, in a period of tremendous freight movement such as we have seen during the war, and which has taxed the resources of our railroad facilities, this road would have all the traffic it could handle. It is somewhat of a question, however, if in a period of industrial depression, much of this increased traffic might not revert to the big trunk lines with good connections and "feeders" capable of originating traffic.

CHESAPEAKE & OHIO.—In the midst of so many disappointing railroad reports, that recently put out by the Chesapeake & Ohio Railway for December and the twelve months ended December 31, 1918, is distinctly encouraging.

Attention has often been directed at the progress made by this company in the several years immediately preceding the taking over of the railroads by the Government. In 1916 and 1917 the company enjoyed the two best years in its history, showing a surplus of 12.21% and 11.25% respectively for the $62,792,600 of common stock. Those two years were, of course, very prosperous for practically every railroad in the country. There is, therefore, nothing extraordinary in the good showing made by the Chesapeake & Ohio at that time. The extraordinary thing is that in 1918, when some of the most substantial systems in the United States have had difficulty in earning their fixed charges, this road should be able to earn a larger net profit than ever before and have a balance left for the common stock of better than 13%.

The principal income items for 1918 and 1917 as returned to the Interstate Commerce Commission are as follows:—

	1918	1917	% Increase
Gross operating revenue	$73,720,797	$54,643,794	35%
Maintenance of way and structure	$9,700,660	$6,905,579	40%
Maintenance of equipment	16,178,533	10,521,724	54
Transportation expenses	26,189,743	18,537,582	41
Total operating expenses	54,143,002	38,105,806	42
Net after taxes	17,654,994	14,890,416	18
Net operating income	17,042,405	15,529,770	9

As was to be expected maintenance and transportation expenses were much larger last year than in 1917. But in view of the increase in gross revenue of 35%, an increase in operating expenses of 42% is by no means excessive. Indeed, the operating ratio in 1918 was only 73%, as compared with 70% in the preceding year, and a ten-year average of about 67%.

On the basis of the 1917 figures the Chesapeake's fixed charges should be about $8,600,000. This sum subtracted from a net operating income of $17,042,405 would leave a balance of approximately $8,400,000, which is equivalent to about 13% for the $62,792,600 of stock.

Moreover, it is especially worthy of note that in the last few months of the year the increase in both gross and net was well maintained. For instance, in December gross jumped 49% and net income 30%. The actual net was $1,731,758, which would be at the annual rate of $20,000,000 for twelve months.

Under the Government guarantee it is estimated that the company is assured of a net operating income of $13,200,000, which, after deductions, would leave about 7.5% for the common. As this issue is now on a 4% annual dividend basis the Chesapeake & Ohio is thus in the enviable position of having a substantial margin, both in the Government guarantee and in current earnings, above its dividend requirements.

ATLANTIC GULF & WEST INDIES.—The recent decline in Atlantic Gulf was predicated upon an apparent lapse in earning power of the Clyde line. The ground work for a decline had undoubtedly been laid several weeks before in the announced reductions running as high as 65% in trans-Atlantic freight rates.

It is interesting to know that the three services which the Clyde line has temporarily suspended were its three smallest lines and were all productive of red ink figures both in 1917 and 1918.

The Clyde and the Mallory lines have for some time been making the bulk of their profits on "outside charter," i. e., use of steamers for other than regular services. At present Clyde, for example, has boats chartered for trips to Italy, England, Cuba and Mexico.

It is worthy of note that the Clyde and Mallory companies during the past three years have been the small earners in the Gulf combination. In fact it is approximately correct to state that for three years between 60 and 65% of Atlantic Gulf's net have come from the Ward and Porto Rico lines. And of the earnings of Clyde and Mallory fully 75% have come from its outside operations, i. e., its ships employed in other than coastwise service.

It is an interesting fact that earnings of the Clyde line from its regular coastwise service always do better in periods of normal or even poor general business. There is every reason to believe that this former rule will obtain as soon as the abnormal wage scale created under Government operation can be corrected.

All of the Atlantic Gulf boats under ordinary operating conditions undergo a thorough overhauling once a year. During the rush of the past 18 months this work has had to be somewhat neglected. As a result of its route suspensions Clyde line is now able to drydock a number of its steamers. As the work is finished they will either be used on outside charter or tied up until required again for coastwise traffic.

NATIONAL ACME.—For its entire fiscal year to December 31 last, National Acme may be expected to show an operating profit before taxes as large or perhaps slightly larger than for 1917.

The company made a decided gain in working capital during the year, the balance of net quick assets on December 31 amounting to $8,569,197, against $7,534,938 at the end of 1917, an increase of $1,034,938, or 13%.

It is interesting to note that this working capital is equal to $16.75 per share. The total asset value of the stock is now practically $29 per share and has increased at the rate of $5 per share for the past two years.

The $5,000,000, which was put back into property or working capital during the last two years will be of decided support to the continuance of the present $3 dividend.

PROCTER & GAMBLE.—Decision of Procter & Gamble directors to offer $3,795,000 additional common stock to shareholders at $300 per share is interesting both as a reminder of this company's remarkable expansion during recent years and also because it betokens a return to the policy of financing this large business with stock rather than bonds or notes.

The proceeds of the 37,955 new shares will give Procter & Gamble $11,386,500 in new money. Of this it is likely that $5,000,000 will be employed to pay off the first installment of the $25,000,000 one to five year 7% notes coming due on March 1 next. This will reduce the notes to $20,000,000. In addition, Procter & Gamble has $2,500,000 5% notes maturing on October 1. These will also undoubtedly be paid off either from the proceeds of this new stock issue or from surplus funds accumulated from profits or liquidation of inventories.

Immediately, however, the effect of the new financing will be to give the company $6,386,000 of additional working capital. It is believed that with this new money Procter & Gamble will have a working capital balance above the par of its notes of better than $40,000,000.

Few persons appreciate how vast is the volume of business handled by such a corporation as Procter & Gamble. The company has not been in the limelight and, in fact, except for its two note issues, one of $7,500,000 in 1916 and another of $25,000,000 in March, 1918, very little financial information about this interesting business has ever been available.

In the 12 months to June 30, 1918, Procter & Gamble did a gross business of $176,920,519, an increase of $88,807,012, or 100.7%, compared with 1916. The expansion in sales and the balance of net are shown in the following:—

June 30	1918	1917	1916	1915
Sales	$176,920,519	$128,549,649	$88,113,507	$70,790,906
Net profits	9,719,804	7,056,495	6,216,054	4,835,992

Aside from the $22,500,000 of notes that will be outstanding after March 1 next, Procter & Gamble has a stock capitalization of $2,315,000 preferred and about $17,832,000 common.

The company did a big business for the Government during the war in the production of glycerine. The price of glycerine has declined drastically since November 11 and for a time was below cost of production to most manufacturers. However, in its soap business, which amounts to nearly $50,000,000 annual gross and in its production of hydrogenated lard substitutes, of which Crisco is perhaps the best known, Procter & Gamble controls products the demand for which possesses extraordinary stability.

Government demand for its products and steadily rising inventories forced Procter & Gamble to abandon its self-contained nature and create serial notes. Return of peace and lower inventories will undoubtedly enable it to pay off its notes as they mature and in time leave the company entirely free of debt.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

H A

Members of
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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
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Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 793 February 21, 1919

THE GENERAL MARKET.—It is interesting and, we believe, will be found profitable, to compare present conditions with those existing just four years ago. It will be found that there are several points of similarity and several of sharp contrast. First, as to the stock market; each period was preceded by two years of liquidation and adjustment, the difference being, that in 1915, the adjustment was to war conditions; now, happily, it is to peace conditions. The net result, however, is the same in both cases, viz.: low prices for securities in comparison with intrinsic value. Now, as then, there is a prospect of a very large European demand for our goods. Incidentally, the January figures of exports, establishing a new high figure of $623,000,000 and a balance of $410,000,000, must set at rest any talk of a falling off in export trade. These compare with total exports of $505,000,000 and a balance of $271,000,000 in the same month of 1918. To be sure, these exports of January, 1919, are the result of Europe's demand for our foodstuffs, but it is reasonably certain that this will be succeeded by a demand for a variety of products. There is a wide difference in the manner of financing these purchases. In 1915, they were paid for by selling back to us our securities. Now they must be financed by long-term credits. The net result, however, to the manufacturer selling the goods is the same.

There is quite a sharp difference in the price structure. In 1915 prices had been depressed for some time and were still low; today we are in the throes of readjustment from very inflated prices. Perhaps it is not generally realized, however, that within three months the price of the great staple commodities, cotton cloth, copper, spelter, etc., have come down 33 to 50%. We are probably close to a purchasing level now. The great difference of an unfavorable character is in the labor situation. In 1915 labor cost of commodities was reasonable; today this is very high. In this respect the railroads are particularly unfortunate. Privately managed concerns can, and will get their labor cost down, but so long as the railroads remain under Government operation, the political factor will probably be too strong to make much headway against the present colossal wage scale. Still, this is too big a matter not to be settled right.

In two respects this country is much better off than in 1915; first, it is now a creditor nation instead of a debtor, and can well afford to extend credit asked for. Secondly, the individual companies have put back into their businesses amounts equivalent to from $25 to $200 per share on their stocks. A large proportion of this is in working assets.

The readjustment is proceeding apace. Events of the last month have done much to encourage the belief that it will be accomplished without serious trouble. We allude to the reduction in wages effected. The labor leaders are intelligent men who realize that this must come about, even if looked at from the standpoint of their own interests. We recently spoke of inducing a partnership between labor and capital. It is quite true that probably 90% of all men of mature years in this country are both laborers and capitalists. The man who works with his brain is quite as much a laborer as the man who works with his hands and, conversely, the man who saves up to build a house, or to buy a Liberty Bond, is quite as much of a capitalist in principle as the biggest financier. Nevertheless, because a man may own a Liberty Bond is not going to make him interested in the particular business in which he is employed. On the other hand, if he can be induced to become a partner in that business, sharing its risks as well as profits, his attitude toward it will undergo a radical change. The fact remains that it is companies that have done this that have been freest from labor trouble.

The vital thing today is production. Everyone wants to see wages as high as possible, but there is only one thing that will justify high wages and that is production to correspond.

There is nothing authoritative enough as yet to warrant much discussion on the next Liberty Loan, but it may be remarked that a wide popular distribution is advisable. If the whole burden is left to the banks, it would mean a restriction of commercial credit and an unsound situation.

It is, unfortunately, true that the public will not buy securities at the bottom any more than the manufacturer will buy raw materials at the bottom. In each case, there must be a sufficient rebound to assure them that the lowest prices are passed. Hence, the start upward is always the hardest. We believe, however, that the country is in a splendid condition to do a big business; once a buying movement in commodities sets in, it will be quickly followed by a revival of courage in the security markets.

ALLIS-CHALMERS.—It is understood that in the 12 months to December 31, 1918, Allis-Chalmers earned a balance for its $26,000,000 common stock after deduction of all war taxes and a dividend of 10% on the $16,500,000 preferred, of slightly better than $13.25 per share. This would compare with earnings of 9.2% in 1917 based on dividend payments of 10% on the preferred.

Allis-Chalmers entered its new fiscal year on January 31, with a creditable total of unfilled orders

amounting to better than $23,000,000. Since the signing of the armistice new business has been coming in at the rate of $1,000,000 per month, which is slightly better than one-third the average bookings during the 1918 year.

The prospects are excellent that while Allis-Chalmers in 1919 will do somewhat less than the $35,000,000 of gross billed out last year, it will still be able to show net profits, based on lower taxes, that should at least equal $10 a share on the common stock.

Allis-Chalmers has been one of the most restrained of the industrial companies so far as physical expansion during the war period is concerned. The betterments which it has made to its plants have been mainly in the way of improvements, which should have been made prior to 1914 had the company been in earning position to have financed them. As a matter of fact, the new management, which has been at the head of the affairs of this company since 1913, has so thoroughly rejuvenated the property that the great transformation in its physical equipment and earning possibilities have never been fully appreciated. The year 1914, which was the first in which the new management operated for a continuous 12 months, was so poor a year in general business that Allis-Chalmers did not have a proper chance to give account of itself. Since 1915 the company has naturally felt the stimulating effect of war conditions, and for the past year and a half its largest single customer has been the Government, either directly or indirectly.

To our mind, the major factors in the Allis-Chalmers situation are new management, the rejuvenated plant system and the radically improved financial position of the company. The combination of these three factors is such that given a reasonable degree of general business prosperity in the United States, there would seem to be no sound reason why this company which has no bonds, no floating debt and an abundance of working capital, should not be able to go on and show a sustained earning power. It may very well be the case that the earnings for the common stock will fluctuate considerably from year to year, but the continuance of poor and inefficient management, which precipitated the 1913 crisis would seem to have definitely passed.

Incidentally it is interesting to know that Allis-Chalmers is working on lines of tractor development which are exceedingly promising. In fact, the company has developed a large and small tractor, which so far as actual tests in the field are concerned, have fully met the expectation of the management. The company still has to develop its selling field for the distribution of these products and it may be the case that a year or two years will be required before the company can completely find itself as a large tractor producer.

If such development does succeed it will have a most important influence on the permanent earning power of the company, giving it quantity production of a single standardized line which in conjunction with its special order business for the 14 or 15 lines of large machinery which the company regularly manufactures, would afford a diversified line of products with much greater stability of earnings than have been enjoyed heretofore.

PEOPLE'S GAS LIGHT & COKE.—The report of this company for the year ended December 31, 1918, is a very discouraging exhibit, showing as it did a deficit after bond interest of $1,366,629. The year before a deficit after charges of $365,201 was reported, but previous to that time the company had been a substantial earner and dividend payer for a great many years.

The difficulties of the public service corporations, which became acute in 1917 and 1918, are familiar to everyone. The object of too many regulatory commissions appears to have been to reduce the prices of the commodities, which the public service concerns have to sell, or at least to keep them stationary, with little or no regard to the cost of production.

How serious has been the increase in the cost of production of gas by this company is well illustrated by a table accompanying the annual report, showing a detailed statement of expenses from which we have taken the following more important items:

	1918	1917	1916	1915
Coal for steam	$778,291	$383,813	$203,990	$182,632
Cents per 1,000 cubic feet of gas	3.44	1.95	1.25	1.08
Fuel	3,864,000	2,456,611	1,260,640	1,286,828
Cents per 1,000 cubic feet	17.07	12.50	7.78	7.63
Oil	5,817,350	5,131,508	3,295,751	2,080,284
Cents per 1,000 cubic feet	25.70	26.10	20.33	12.34
Manufacturing labor	1,386,044	783,877	468,026	440,239
Cents per 1,000 cubic feet	6.12	3.99	2.89	2.61
Cost of production	13,442,662	10,591,807	7,128,486	5,778,348
Cents per 1,000 cubic feet	48.17	41.48	31.13	25.74
Total cost of gas delivered	20,588,879	17,328,689	13,322,417	11,712,054
Cents per 1,000 cubic feet	79.32	72.57	61.62	56.20

The cost of production per thousand cubic feet of gas has nearly doubled in three years. The cost of coal alone in 1918 was over $4,600,000, as against only $1,470,000 in 1915. It would seem as though from now on there might be a gradual reduction in the expenditures for coal and also for oil as the tremen-

dous war demand for these commodities is now over. It might be expected, therefore, that before very long the cost of operation would tend to get back to at least the level of 1916, in which year over 5% was earned for the $38,500,000 of stock.

Nevertheless, disregarding the possibility of lower costs, there is every reason to look for a considerable improvement in the profit for this year as a result of the increase in the price of gas of 27½%, which was granted by the Illinois Public Utilities Commission to take effect September 1. The importance to the company of this rate advance may be seen from the fact that from January 1 to August 31 there was a deficit after bond interest of $1,502,218, while in the four remaining months of 1918 there was a surplus of $100,828. To be sure this surplus is at the annual rate of only $300,000—an insignificant amount for the stock, but at the same time it shows that the corner has been turned and that deficits are a thing of the past.

Another encouraging feature is the decision of the Illinois Supreme Court, in a suit brought by a consumer of gas to collect the excess paid by him over the rates fixed by the City of Chicago in 1911, that the city has no power to fix rates and no refund could be collected. The total of such claims is said to be some $10,000,000 to $11,000,000. There is still pending another suit on this same matter, but the Supreme Court decision would seem to preclude the possibility of an unfavorable outcome. The final settlement of these claims should remove a long-standing source of apprehension.

CUBAN PORTLAND CEMENT.—Since this company began operations in May of last year, it has, for the greater part of the time, been producing at the rate of 1,000 barrels per day, which is its present rate of production.

This is but half the rated capacity of the plant and is caused by two grinding machines not handling their rated capacity. Changes are now being made to correct this situation, which changes should be completed early in June.

By the first of July, therefore, it is expected that this plant will be turning out its full 2,000 barrels of cement per day.

Meantime, it has demonstrated that its cement will compare very favorably in quality with that of the best imported cements, and considering that the plant has been operating at but 50% capacity, the cost has been most satisfactory; such, indeed, as to indicate a very substantial profit when the plant can operate full.

The fuel oil installation has worked out most successfully and there is every reason to believe that Cuban Cement will, permanently, receive its fuel supply as cheap as the average mill in the United States.

The practice of delivering the cement in paper bags, which is an innovation in the trade in Cuba, has also been well received, and about ⅓ of the company's output is now being shipped in paper.

It may be recalled that the price of cement was increased last fall by 25 cents per barrel. The market continues very strong, and the company is offered more business than it can possibly take care of. Cement business is handled practically on the basis of immediate deiivery and yet, at the present time, the company has forward orders for over 45,000 barrels of cement, or nearly two months' production.

As time goes on, it is quite possible that the price will decline, but the cement from this mill will always have the advantage over the imported article of freedom from marine freight and import charges.

THE EQUIPMENT OUTLOOK.—Back in the summer of 1918 it was the general rule of the financial community to regard the equipment stocks as a group as essentially peace securities.

But as things stand at the minute a partial revision of this previous estimate seems likely to be necessary. By this we do not mean any radical revision or one likely to affect the continuance of present common dividends. At most the effect of the recession in business, which is likely to prevail in the equipment group by midsummer will probably be to defer further increases in common dividends, which might otherwise have been expected.

When the war ended on November 11, Baldwin Locomotive, American Car & Foundry and American Steel Foundries were all engaged in very important and considerable war work. This included a wide variety of war products.

All this work has obviously been cancelled. Its loss has still left these companies with a healthy volume of unfilled equipment orders. American Car & Foundry, for example, has enough work to last into August. This includes both domestic and export car orders. American Locomotive has five months unfilled orders. Baldwin is practically in the same position, although of course its big Eddystone rifle and munitions plant is standing idle.

The point which we would emphasize, however, is that the domestic equipment building of these corporations may be expected always to be 75 to 80% of their annual overturn.

The letup in general business all over the country has already produced a surplus of cars and locomotives. As this letup continues or is accentuated this surplus of idle equipment will have an inevitable influence in slowing down further buying by the railroad administration for account American railroads. For the time being American roads are better equipped in relation to actual business demands than at any period in several years.

Meantime the equipment companies have been remarkably conservative in the distribution of their war profits.

American Car & Foundry, American Locomotive and Railway Steel Spring, all three have at present

a net working capital in excess of the par of their preferred stocks. Car Foundry and American Locomotive possess in fact a balance of net quick equal to about $20 per share on their common stocks above par for their preferred. In normal times both companies have greater net current assets than they need. This situation American Car at a later date will, doubtless, take advantage of to put several millions into some line of business outside the equipment industry. The effect would be to produce a stabilizing influence, offsetting in part the probably inevitable "prince and pauper" characteristic of the equipment industry.

Baldwin Locomotive closed its fiscal year December 31. It was easily the best in the company's history, representing practically 11 months of capacity operations. It is believed the final figures will show close to $40 per share for the $20,000,000 common after taxes, interest and preferred dividends. This would compare with $42 per share for the common in 1917, when tax reserves were obviously much smaller.

The big gain to Baldwin, however, in 1918 was in the correction of its financial position and especially its betterment in working capital.

TIRE COMPANIES' STRONG POSITION.—Contrasting sharply with the general feeling of conservatism or depression which prevails generally among the steel and metal companies is the frank optimism of the rubber companies and especially the tire companies.

The officials of the large tire companies look for a continuance of strong business in 1919 and their argument runs about as follows:—

In 1917 the United States consumed 25,000,000 tires. The 1918 consumption was about 26,000,000 tires. Last year consumption exceeded production and stocks on hand were measurably depleted.

It is estimated that 1919 consumption will at least equal 32,000,000 tires and may reach 34,000,000. There is strong assurance, according to tire authorities, therefore, for a 1919 increase in production of 25 to 30%.

There has been considerable speculation as to how soon and how radically tire prices would be cut. The figures of anticipated consumption are the answer. They would seem to show that no sound reason existed for any material cut. And this point of view is supported by the fact that the price of Egyptian long staple cotton has been fixed by the British Government at 48 cents per pound at Alexandria until August 1. But August 1 Alexandria means December 1 in cotton mills of the United States. In effect there can be no recession in the special grades of cotton required for tire fabrics until after December 1. And it is tire fabrics which have largely dictated the price of tires for two years. Until tire fabrics decline the reduction in tire prices will, it is believed, be comparatively slight. A 10% reduction for 1919 measures present expectations.

It may be argued that crude rubber will decline. This is possible but not probable. Rubber is one commodity which has not been inflated by war. It is as low or lower in price than in 1914. Unless there should be an unexpected increase in Sumatra production rubber is not likely to vary materially from its present level.

The makers of tires base their expectation of strong 1919 earnings upon two factors—a prospective 30% gain in output and a reduction in price not expected to exceed 10%. They should also benefit by easing conditions of labor and a downward tendency in cost of production.

The recently published preliminary figures of the B. F. Goodrich Company for the year to December 31, 1918, are interesting confirmation of the prosperity of the tire producers. In fact, Goodrich's gross sales in 1918 of $123,400,000 were $36,245,000, or 41% greater than in 1917, and this gain exceeded by nearly $5,000,000 the increase in gross of $31,739,000 during the two previous fiscal years.

Goodrich's net has not kept pace with its expansion in sales. Had the margin of profit been as large as in 1917 total net profits would have reached $18,000,000, instead of the $15,500,000 actually expected. It is probable that charges for depreciation and inventories were heavily increased.

This $15,500,000 expected net in 1918 is before taxes. The 1917 federal tax of $2,250,000 will be heavily increased and a minimum payment of $3,200,000 seems probable. On that basis a final balance of $16 to $18 per share for the $60,000,000 common seems probable. Such profits would compare with $14.50 in 1917, $12.75 in 1916 and the previous record total of 17.2% in 1915.

Goodrich has $15,000,000 notes coming due this October. If business holds up as expected some move in the direction of permanent financing would seem inevitable. Certainly the company cannot be expected indefinitely to handle $125,000,000 of sales on a $35,000,000 net working capital.

THE STEEL OUTLOOK.—Some of the large independent Steel manufacturers in the West are confident that the steel industry of the United States in 1919 will operate at an average of between 68 and 70% of 1918 production.

While this sounds like a rather drastic reduction it is worth recalling that it would mean an output equal to that of any year prior to the war, with the exception of 1912, when 30,300,000 tons of steel were produced.

At the present time many Western steel producers are standing firm on price and expect to make no further price changes until April 1.

The average steel production of the United States during the three years, 1916, 1917 and 1918, was slightly more than 42,000,000 tons. The estimated production this year of a possible 28,000,000 tons is perhaps slightly less of a decline than might be expected, in view of the radical readjustment taking place on other metals.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

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No. 794 February 28, 1919

THE GENERAL MARKET.—As we see it, there are two principal features to this market; the first is its imperviousness to bad news. Despite the rather pessimistic utterances of several prominent men, despite reduced dividends, and falling commodity markets, stocks continue to rise. As a matter of fact, the market has rarely given a more typical illustration of its function as a barometer in discounting forthcoming conditions, rather than reflecting current conditions, than it has in the last few months. For three months following the signing of the Armistice, we saw a liquidating and rather discouraged security market. This was in anticipation of the very industrial conditions that we now witness. Probably these conditions will continue some little time longer, but if this rise means anything it means that, in the opinion of those whose financial judgment is worth the most, we shall see a revival of business acitvity by early summer.

The American characteristic of cleaning up an unfavorable situation as quickly as possible will soon be justified. The deadwood in the shape of prices for commodities that, under normal conditions, have no meaning, will soon be out of the way. Probably we are nearer large buying movements in all commodities than most people realize. The movement that has been started to undertake various Government construction work may well prove just the stimulus that is needed. Retail business all through this period has continued active and must be rapidly drawing down the stocks of goods in the hands of producers and wholesalers.

The second feature in the market the last few days has been its broadening tendency. As in the early stages of all movements, the first stocks to rise were the specialties: oils, tobaccos, etc. Now it would seem probable that the larger, and what are generally regarded as the more standard issues, steels, coppers, etc., will be in for their turn.

As in most swings, there are bound to be times of some reaction; no doubt, there has been, already, a good deal of profit-taking, and if one has been fortunate enough to be interested in some of the specialties that have scored large advances, we certainly should not advise against taking such a profit, but looking at it in rather a broad way, we cannot feel that the movement has culminated or anything like it.

After all, the standard stocks have recovered less than 20% of the decline that they have suffered in the last two years. Granting that this decline started from prices that would now be considered abnormally high, there is still plenty of room for movement, without encroaching on dangerous ground.

PUNTA ALEGRE SUGAR.—With the inducement of an increase of nine-tenths of a cent in the price of sugar fixed by the Equalization Board, and with considerably larger plantings, the Cuban crop had been estimated at from 3,800,000 tons to 4,000,000 tons, as against a 1918 crop of about 3,600,000 tons.

So far this expectation has not been realized. On the contrary, heavy and unusual rains up to the middle of January caused a decrease in the crop as a whole, from 521,000 to 460,000 tons.

Punta Alegre, naturally, felt these conditions, but has done, relatively, better than the island as a whole. Up to the latter part of February, its out-turn showed an increase of, approximately, 20% over that of last year. Of recent weeks, with drier weather, it has come along particularly fast, the last four weeks showing a gain over the same period of last year of 35%.

It now seems quite probable that the company will live up to, and perhaps exceed, the original estimate of 600,000 bags, which would compare with an out-turn last year of 442,000.

The gross increase allowed in the price of sugar is equivalent to nearly $3 per bag. Although the cost will, undoubtedly, be higher, it would seem as though the company should save at least half this increase, so that it seems conservative to count on a gross profit of $5 per bag, as against $4 last year. This would mean a gross profit of around $3,000,000, which, after depreciation and interest charges, would leave a balance of around $2,000,000 to be applied to 77,200 shares of common stock.

The company's cash on hand and the value of the sugar made to date are within less than $1,500,000 of its seasonal borrowings. By the time it shall have liquidated its full crop, it seems probable that it will have a balance of over $2,000,000.

RAILROADS UNDER GOVERNMENT CONTROL.—The first year of Government operation of the railroads ended on December 31, 1918. The railroads are, of course, guaranteed a net revenue equal to the average net income of the three years ending June 30, 1917, and so, for the moment, actual current earnings have no part in determining the dividends that a railroad can pay.

It is, however, an interesting sidelight to compare the guaranteed earnings with the actual earnings

of last year—both as indicating the probable position of the roads when and if they are returned to private control, and also as showing the profit or loss to the Government from its venture into railroading.

We present below a table comparing the actual earnings in 1918 with the guaranteed earnings, the percentages earned and guaranteed on the stocks, the dividend rate and the profit or loss to the Government from the operation of twenty-one of the leading railroads of the country:

ROAD	1918 Net Income	Guaranteed Net Income	1918 % Earned on Stock	Guaranteed Income Equal to	Current Div. Rate	1918 Sur. or Def. to Gov.
Atchison	$44,074,277	$43,114,000	11.00%	10.75%	6%	+ $960,000
Baltimore & Ohio	7,227,875	25,403,000	—	5.00	4	—18,175,000
Boston & Maine	1,737,008	9,594,000	—	2.75	—	— 7,857,000
Chesapeake & Ohio	17,042,405	13,265,000	13.00	7.50	4	+ 3,777,000
Chicago & Northwestern	12,441,437	23,364,000	2.00	9.00	7	—10,922,000
St. Paul	3,643,191	27,214,000	—	2.00	—	—23,571,000
Rock Island	9,180,404	15,921,000	—	2.30	—	— 6,740,000
Erie	—2,268,878	15,767,000	—	2.50	—	—18,036,000
Great Northern	11,978,790	28,771,000	4.50	11.00	7	—16,793,000
Illinois Central	12,907,465	16,282,000	7.50	10.50	7	— 3,374,000
Lehigh Valley	6,683,313	11,321,000	5.50	13.00	10	— 4,638,000
Louisville & Nashville	19,367,632	17,509,000	18.50	16.00	7	+ 1,857,000
Missouri Pacific	11,764,562	14,273,000	—	1.00	—	— 2,509,000
New York Central	48,291,878	58,122,000	8.00	11.00	5	— 9,820,000
New Haven	7,534,334	16,800,000	—	2.00	—	— 9,266,000
Norfolk & Western	18,256,481	20,641,000	12.50	14.50	7	— 2,385,000
Northern Pacific	28,209,373	30,130,000	8.25	9.00	7	— 1,921,000
Pennsylvania	17,929,568	51,378,000	3.00	9.00	6	—33,448,000
Southern Railway	29,291,869	18,332,000	11.00	2.00	—	+10,960,000
Southern Pacific	48,869,358	48,017,000	10.00	10.00	6	+ 852,000
Union Pacific	50,822,106	38,553,000	20.00	13.00	10	+12,269,000

It will be observed that with a few notable exceptions the net revenue was considerably below the guaranteed income, and that several roads which have a long dividend record did not earn their 1918 payments. It comes as somewhat of a shock to find the Northwestern, Great Northern, Baltimore & Ohio, Lehigh Valley, and Pennsylvania not able to earn their dividends. In fact, on actual earnings, out of the above twenty-one companies, eleven either did not have any balance left for the common or did not have a large enough balance to cover payments.

The exceptions are chiefly Southern and Western systems. The Atchison, Southern Pacific, Northern Pacific, Illinois Central, Louisville & Nashville, New York Central, and Norfolk & Western, all earned more than their dividend requirements. Most remarkable was the showing of the Chesapeake & Ohio, Southern Railway and Union Pacific.

On the entire twenty-one railroads actual earnings were about $139,000,000 less than the minimum income for which the Government is responsible. Since these systems have a mileage of 125,000 miles as compared with an estimated total of 260,000 miles taken over by the Government, the loss to the Government from last year's operations would probably figure pretty close to $300,000,000, provided the same proportion were maintained on the remaining mileage.

AMERICAN TELEPHONE & TELEGRAPH.—It is the opinion of the leaders of the telephone industry of the United States that the telephone and telegraph companies will unquestionably revert to private operation. Just how soon Government operation, which became effective on August 1, will cease is still an unsettled matter, but it would occasion no surprise if the 1st of January, 1920, found the Bell Telephone system again under private operation.

Such a development is viewed with no apprehension by the management of American Telephone & Telegraph. They feel confident that the company will be able to earn and pay the present 8% dividend on its approximately $442,000,000 capital stock.

During 1918 the company adhered to its previous policy of making liberal charges for depreciation in addition to the very heavy setup for maintenance. The appropriation for depreciation and absolescence has averaged approximately $5\frac{3}{4}$% on capital for a series of years.

The effect of Government operation upon the Bell System has not been nearly as demoralizing as many people have imagined. Wages have been increased, but probably no more than the company would have been obliged to increase them had private operation continued. There is, of course, a radical discrepancy between the rate increases allowed the Bell Telephone System and the increases in rates allowed the railroads. For instance, a comparison shows that railroad freight rates in effect at the close of last year were 27% higher than in 1913. Passenger rates were nearly 26% higher. In comparison with this there had been an increase in Bell Telephone rates of but about 4%. There are many increases in Telephone rates which have been arbitrarily held up by State authority, largely due to the jealousy of individual states

over the alleged infringement of their rights by the Post Office Department. The reversion to private ownership will doubtless be accomplished with a general settlement of the telephone rate question. In other words, so far as the relation between the National authority and the several states is concerned, the problem of telephone rates is one with the problem of railroad rates. The turning back of the railroads may easily occur at a later date than the reversion of the telephone systems to private operation, but the principle upon which rate making is settled is likely to be closely akin in the two lines of public utilities.

It may be stated in a broad way that in 1918 American Telephone earned its 8% dividend from its own independent operations with a substantial surplus to the good. In other words, so far as the Government is concerned, American Telephone was able to operate on an entirely independent basis and was not obliged to rely on its allowed compensation in any way to make good its dividend or create a surplus above dividend.

GENERAL MOTORS.—There have been very few industries that have shown the expansion that this has in the last few years. It was less than three years ago that the original company had a capitalization of 165,000 shares of common stock and 150,000 shares of preferred. As compared with this, the present corporation will have, when its stock shall have been fully exchanged for that of the properties it has been absorbing, 1,513,000 shares of common stock and a 6% debenture stock issue of 507,000 shares; as against a selling valuation in the market three years ago of about $32,000,000, present quotations place a valuation on its securities of $270,000,000.

Of course, the General Motors is a radically different proposition today than three years ago; not only has the corporation itself expanded tremendously, but it has taken in a number of other large concerns, notably the Chevrolet and the United Motors, which themselves were consolidations of various other enterprises.

The only consolidated statement of earnings given in the listing notice is that for the nine months ended September 30, 1918, which includes but five months of the Chevrolet companies. From this one might deduce the following annual rate of earnings:—

Net earnings—9 months ended September 30	$19,044,026
At annual rate of	25,392,000
Less dividend requirements on new 6% debenture	3,044,000
	$22,348,000
Earned per share on 1,513,000 shares common	$14.70

This, on the face of it, is only a partial statement of the earning power behind the stock and is, therefore, not very satisfactory.

We believe it would give a much truer conception of the real earning power behind the present capitalization to take the earnings of the individual companies for the last 12 months available and to combine these.

This we have attempted to do in the following table. The earnings, to be sure, are not all for the same fiscal period, but still such a table will give a fairly comprehensive idea of what the actual earning power behind the stock as it stands today amounts to:—

Company	Year ended	
General Motors (N. J.)	June 30, 1917	$24,780,917
Chevrolet	Dec. 31, 1917	4,965,337
United Motors	June 30, 1918	6,926,851
Lancaster Steel Products	June 30, 1918	157,760
McLaughlin Motor	July 31, 1918	*801,216
Chevrolet of Canada	Dec. 31, 1917	*224,980
McLaughlin Carriage	July 31, 1918	*1,184,936
		$39,041,997
Less 6% on Debenture stock		3,044,000
		$35,997,997
On 1,513,000 shares equal per share to		$23.80

*Subject to deduction for Canadian tax.

It will be seen that these actual earnings were almost twice the present $12 dividend rate. In the Balance Sheet the good will has not yet been separated from the physical assets, though it is stated that this will later be done, so that the chief interest here is in the showing of net quick assets. This reveals the company in a very strong position, with net quick assets, after allowing for tax reserves, of over $82,000,000, or sufficient to cover the par of the preferred and leave a balance of $31,000,000, or $20 per share on the common stock.

Of these assets, over $23,000,000 is in cash and nearly $11,000,000 in Liberty Bonds. The only possibility of danger is in the large inventories which are carried at nearly $64,000,000.

There has been a good deal of doubt and skepticism as to the permanent earning value on such a tremendous capitalization, which is, perhaps, natural in view of the way the company has taken in one enterprise after another. There is, no doubt, quite a different policy in force today than that of the original management, which was responsible for the company's earlier successes.

At the same time, it must be admitted that, to date at least, the earning power has kept pace with the increase in capitalization.

BALDWIN LOCOMOTIVE.—There are two particularly interesting features to the Baldwin Locomotive annual statement for its fiscal year to December 31 last.

One is the very heavy sums charged against earnings for depreciation and amortization. In a certain sense these heavy charges represent sums which in more normal times might properly be construed as concealed earnings.

The second noteworthy feature is the very material betterment in financial position.

The condensed income account shows a charge against net profits for taxes, depreciation, amortization and adjustments of $12,509,817, against $2,888,118 in 1917, an increase of $9,621,698. The details of this big charge is shown in the following:—

	1918	1917	Increase
Depreciation	$1,850,000	$600,000	$1,250,000
Amortization Machinery	3,698,921	——	3,698,921
Res. for taxes	6,500.000	1,750,000	4,750,000
Adjustments	460,895	538,118	*77,223
Total	$12,509,816	$2,888,118	$9,621,698

*Decrease.

The charge of $3,698,921 includes a 50% depreciation charge on the $3,226,940 expended for the new erecting shop at Eddystone. In addition, $2,085,451 was charged against patterns and drawings, due to the assumed lessened value of these assets because of Government standardization.

Into the two items of depreciation and amortization Baldwin Locomotive therefore charged $4,948,921 more than in 1917, a sum equal to over $24 per share on its $20,000,000 common stock.

In view of these very heavy writeoffs it is not surprising that Baldwin's common share profits exclusive of its equity in the undivided profits of the Standard Steel Works were but $21.76 per share, a figure comparing with previous years as follows:—

	1918	1917	1916	1915
Per cent. on common	21.76%	40.22%	22.91%	7.14%

Standard Steel Works net profits which amounted in 1917 to $2,916,959 after taxes and depreciation declined to $934,000 in 1918. But of this nearly $2,000,000 decrease $1,634,000 is accounted for by an increase in the tax reserve to $2,400,000.

The second significant fact is the great betterment in financial position. This is pictured in part in the following comparison of working capital for the past four years:—

	1918	1917	1916	1915
Current assets	$40,508,236	$38,811,325	$27,107,882	$19,023,210
Current liabilities	12,719,976	20,560,387	19,632,633	6,065,337
Working capital	27,788,260	18,250,938	7,475,249	12,957,873

At the end of the 1916 year Baldwin was in poor financial shape. It has expanded at so rapid a rate both physically and in gross overturn that it was borrowing $11,000,000 from the banks. Even at the end of 1917 bank loans totalled $8,250,000. All this debt has been paid off and in addition Standard Steel Works has cancelled its floating debt of $2,500,000. Consequently, unless Eddystone Munitions, whose operations are not discussed in the 1918 report, has a floating debt it is true today that Baldwin Locomotive for the first time in four years is free from all bank obligations.

It may be noted in passing that gross sales for 1917 showed a gain of $24,915,386, or 25.3%, crossing the $100,000,000 mark for the first time.

The manufacturing profit of 14.5% was distinctly favorable comparing with 11.9% in 1917, so that in giving heed to the comparative decline in profits for the $20,000,000 common it is perfectly obvious that the decrease was more arbitrary than real.

INTERNATIONAL PORTLAND CEMENT.—Cable advices are to the effect that this company is now producing close to 1,000 barrels of cement daily. The cement has received the official approval of the Argentine Government.

FLUCTUATION BOOKS.—We have a few copies on hand of the latest issue 1918 Fluctuation Records, copy of which will be sent to any of our clients upon request.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

Members of
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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
High Grade
Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 796 March 14, 1919

THE GENERAL MARKET.—After a period of such excessive activity as we have had for the last few weeks, especially as contrasted with the former period of dulness, it is quite natural to look for some pause, and predictions of a reaction are frequently heard. It seems to us, however, that such predictions scarcely take into sufficient consideration the background of this market. The outstanding fact is that, after two years of liquidation and readjustment, we have had about one month of advancing prices. To be sure, a few specialties have scored rather sensational advances, but this is always true of the early stages of an upswing. Taking the market as a whole, the gain has been but a small fraction of the previous loss.

There is, however, this to be said, that by this advance, in the face of a generally unfavorable business condition, the market has registered very pronounced faith in improvement. It is now essential that business should give signs of living up to this prospect; that is, one might quite reasonably ask for some definite indications of improving business before embarking on further commitments. We are optimistic enough to believe that such indications will soon be at hand.

The factor that, in our opinion, will have, perhaps, the greatest single influence on this market henceforth, will be the progress made toward the signing of peace terms. While we have had a taste of economic and social unrest in this country, it is, after all, but a taste of the tremendous upheaval that is going on abroad. It is now absolutely essential that the whole world should be given a chance to resume production. The greatest panacea for our present ills would be the resumption of ordinary work-a-day conditions.

While we realize that the technical position of the market must have been somewhat impaired by the recent advance, which must modify, slightly, the attitude taken previous to the rise, yet we believe that we are in a constructive period of such magnitude that the advance that has so far been recorded has, by no means, measured its full effect.

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AMERICAN SUGAR REFINING.—One of the features of American Sugar Refining Company's operations in the fiscal year to December 31, 1918, was the transfer of over $12,000,000 of its assets into the form of investments. At the close of last year American Sugar had six different investment funds aggregating $48,578,644, an increase of $12,546,105, as compared with its investments at the close of 1917. In other words, the company has in investments a sum $3,578,000 greater than the par ($45,000,000) of either its preferred or common stock. In detail the comparison of investments as between 1917 and 1918 is shown in the following:—

	1918	1917	Increase
General Investments	$30,161,130	$24,782,540	$5,378,590
Insurance Fund	9,500,000	9,500,000	——
Pension Fund	1,750,000	1,750,000	——
Improvement Fund	4,367,514	——	4,367,514
Advertising Fund	2,500,000	——	2,500,000
Employees Insurance Fund	300,000	——	300,000
Total	$48,578,644	$36,032,540	$12,546,104

It may be noted that one of the chief changes was in the general investment fund which increased during the year from $24,782,542 to $30,161,130, a gain of $5,378,590. There were no changes in the insurance fund or pension fund investments. On the other hand, the amounts reserved for plant improvements, advertising trade marks and employees' insurance have all been converted from a bookkeeping reserve fund into actual invested assets. All advertising expenses, for instance, are absorbed as a straight operating expense.

In view of this sharp diversion of what would normally be current assets into investments, it is not surprising that as of December 31 last, American Sugar should have had a working capital of but $36,622,807, as compared with $45,739,025 at the close of 1917, a decrease of $9,116,218, or practically 20% during the year. In other words, 75% of the $12,546,105 increase in investments was made possible by the drawing down of working capital, while the balance of $3,429,887 was apparently derived from utilization of surplus earnings.

The operating profit from the refining business of $6,661,684 shows a decrease of $3,393,607, or roughly 50%, as compared with the previous year. It is smaller than in either the 1916 or 1917 year. Considering the abnormal difficulties under which American Sugar operated in 1918, it is not at all surprising that its refining profits should have thus been curtailed. For one thing the company largely lost its export market on refined sugar to Europe. For instance, in 1916 sugar refiners of the United States exported over 703,000 tons of refined sugar. In 1917 the total was 451,000 tons, but this was reduced two-thirds in 1918 to but 150,000 tons, due largely to the determination of the English to import Cuban raws rather than utilize American refined. American Sugar itself exported but 77,000 tons last year, whereas in view of the conditions which prevailed it might have reasonably looked for an export movement of 300,000 to 350,000 tons.

Because of the drastic reduction in United States sugar consumption during the final six months of 1918, American Sugar after October 1 was restricted to the smallest geographical selling area in its entire history. It was practically not permitted to sell any sugar west of Ohio or south of Virginia. The effect of these conditions is obvious. The final three months of 1918 showed either no profit or red ink figures so far as sugar operations were concerned. In fact, during 1918 between 65 and 70% of all the sugar refined during the year was produced in the first six months.

The ending of the war has radically altered the difficult conditions that obtained for the first eleven months of last year. American Sugar is now selling in an unrestricted market, it is no longer hampered as to the size or weight of the carton goods which it may distribute, its machinery is working on normal lines of product and the thousand and one restrictions and petty annoyances which disfigured operations last year have been largely removed.

That the company was able under the difficulties which obtained last year to earn a balance of $11.74 a share for its common after setting up $4,153,111 for depreciation and reserves, is a reasonably satisfactory showing.

No review of the American Sugar situation would be adequate which failed to take cognizance of the apparent recognition which directors are beginning to take of the very large idle capital which the company has had for a series of years. In a sense, this is the meaning of the diversion of surplus working capital into income producing investments. The next logical step would be the employment of funds derived from the sale of these investments in some outside line of business. On its $48,578,000 of investments, American Sugar in 1918 earned $5,202,693, which is slightly better than $2,000,000 more than the 1917 earnings from this source and double the profits of any year prior to 1916.

This balance of $5,202,000 is slightly better than 10% on the amount invested, but it would seem a fair presumption that if American Sugar could find the right kind of an outside business in which to put $10,000,000 to $20,000,000 it could reasonably count upon an average earning capacity of 15 to 20%.

Very clearly American Sugar is in the transition stage. As a sugar refiner it has a surplus capital of $30,000,000 to $40,000,000. The business development of this situation seems likely to be one of absorbing interest.

WESTERN UNION TELEGRAPH COMPANY.—It would occasion no surprise among those who are closest to the wire situation of the country if the American Telephone (the Bell System) and the Western Union were turned back to private operation before January 1, 1920.

It has been obvious for some time that the ambitious program on which the Postmaster General embarked when the wire systems were taken over had failed of popular approval. As a war emergency the Government's control of the wire companies was loyally accepted by the people. But the seizure of the cables coming as it did after the signing of the armistice, was taken in very poor part by millions of Americans who saw in this step not the satisfaction of a war need, but the gratification of personal and political ambition.

Affairs in Congress have now plainly reached a point where reversion of the wire systems to private operation may be confidently expected at the earliest possible moment and if this return eventuates next summer the expectation of many shrewd observers will be fulfilled.

The question, therefore, in considering Western Union shares as an investment or speculation is simply this: In what condition will Western Union be when private operation is resumed?

It may be recalled that in the fiscal year to December 31, 1917, Western Union earned $11,715,366, or 11.7% on its $99,786,700 capital stock after unusual depreciation charges of $2,650,000. The allowed compensation granted by the Government amounted to about $8,000,000 and in addition the company had about $3,500,000 of other net consisting of cable line profits and miscellaneous revenue.

Theoretically, therefore, in 1918 Western Union should have earned 11 to 11½% on its stock above interest, taxes and all prior deductions. As a matter of fact, because of very heavy increases in operating expenses, largely increases in wages, the net profits from actual operation will run about $5,000,000 less than the estimates used at the time the telegraph lines passed under the wing of the post-office department. In short, the Government is likely to have to make up $5,000,000 instead of having it earned from actual operation.

There is another side to this picture. In the 1917 annual statement shareholders learned for the first time that all Government land line messages are carried at 40% of commercial toll rates. Government messages enormously increased during 1918 and at one time were running at the rate of close to $10,000,000. It is entirely safe to estimate that had the Government paid full commercial rates there would have been no $5,000,000 decrease in operating net.

Since November 11 Government messages have obviously radically decreased and the loss from such traffic has correspondingly declined. So far as it goes this is a favorable factor.

The uncertain factor is the constant rise in operating expenses and the stationary character of rates. Few persons appreciate how relatively enormous are the wage increases granted by Western Union during the war period. In 1917 alone the increase in wages and bonuses amounted to $5,550,000. Another $4,500,000 was tacked on in 1918. It is safe to say that in the three years, 1916, 1917 and 1918, Western Union added $13,000,000 to $14,000,000 to its labor costs. Only an enormous growth in gross could absorb such an increase as this.

But the growth in gross from now forward will be negligible for a time and much slower when the readjustment period is ended. It seems perfectly logical, therefore, to expect that when the telegraph lines return to private control one of the first steps will be a general rate increase.

An increase in rates would seem to be needed to assure the stability of the present 7% dividend.

WILSON & CO.—The secret of the very large earnings per share earned for Wilson & Co. common stock in the last few years is the enormous increase in the annual turnover of business on a stationary stock capitalization.

In this connection, it is rather interesting to compare the figures of gross sales and common stock of Wilson & Co. with those of Swift & Co. for the last two years, which may be pictured as follows:—

	Wilson & Co.	Swift & Co.
Gross sales, 1916	$159,000,000	$575,000,000
Common stock, 1916	20,000,000	75,000,000
Gross sales, 1918	400,000,000	1,200,000,000
Common stock, 1918	20,000,000	150,000,000

It will be seen that, in 1916, the proportion of gross sales to common stock was, roughly, about the same in each case, the ratio being a little less than 8–1. In 1918, however, the ratio of sales of common stock in the case of Wilson & Co. was 20–1, while that of Swift & Co. remained the same as in 1916—8–1. On the other hand, Wilson & Co. had, proportionately, a considerably larger indebtedness, its bonds at the close of 1918 amounting to $40,000,000, in addition to which it had notes payable of $30,000,000, while Swift & Co. had bonds of a little under $31,000,000 and no notes payable. In other words, Wilson did a much larger proportion of its business with borrowed capital.

The funding of its obligations has, however, placed Wilson & Co. in a much stronger position as regards working capital, as will be seen from the following:—

	1918	1917	1916
Current assets	$81,995,000	$60,237,000	$36,480,000
Current liabilities	38,808,000	41,291,000	20,989,000
Working capital	43,187,000	18,946,000	15,491,000

In the last three years, Wilson & Co. has earned for its common stock, respectively, $34.49, $38.95 and $21.06—a total of $84.50, all of which has been reinvested in the business, none having been distributed in dividends.

With the war pressure removed, and some tendency toward lower prices, it is conceivable that there might be some falling off in the volume of sales, though there is no doubt that this will continue to be a very large amount.

On the other hand, the margin of profit, which last year was only 1.9 cents per $1.00 of sales should, normally, show considerable increase, perhaps more than enough to offset any decrease in the turnover.

INTERNATIONAL AGRICULTURAL CORPORATION.—The slow upward move in International Agricultural's $13,055,000 preferred is not wholly the reflection of strength in the general market.

There is an excellent probability that after the close of the current fiscal year on June 30 directors will consider it prudent to put the preferred on a full 7% basis. By July the preferred will have been a full year on a 5% basis. At the time this rate was voted it was frankly recognized as a concession to conservatism.

But the current fiscal year promises to be fully as good as the 1918 period, which would mean a preferred share balance of about $13 per share, of which $5 would have been paid as dividends, leaving 8%, or better than $1,000,000 to be returned to surplus.

The company is in line to do a very handsome business in exports of phosphate rock. An association under the Webb law has been developed and the inauguration of exports in quantity is simply a question of steamship tonnage. International Agricultural has a large tonnage of rock running 77%, even as high as 80%. This rock has a ready market at $9.50 to $10 per ton.

It is interesting to recall that the arrangement by which International Agricultural paid Tennessee Copper a sliding scale price running up to $10 per ton for sulphuric acid expired on December 31. The present contract calls for a maximum of 225,000 tons of acid at the old contract price of $4.81 per ton. On any production above 225,000 tons Tennessee Copper gets a handsome bonus. As matters stand today

International Agricultural has no surplus acid for sale and on the acid which it is selling it is making a satisfactory profit per ton.

The question of paying off accrued preferred dividends will hardly be considered at present. The first step is to get definitely on the full 7% cumulative basis.

PENNSYLAVNIA RAILROAD.—The annual report of the Pennsylvania Railroad for the year ended December 31, 1918, shows a balance equal to 8.81% for the capital stock, as compared with 7.87% earned the year before. These earnings, however, are based on the Government guarantee, and not on the actual results of operation. The compensation accruing to the road under federal control for all lines east and west of Pittsburg is given as $65,992,740.

Actual earnings for 1918 fell far below the guaranteed compensation. Net income of the Pennsylvania Railroad proper was $17,929,568, as against $49,500,000 in 1917, and a guarantee of about $51,000,000. The net income of the western lines was $4,284,827, as compared with $10,700,000 in 1917 and a guarantee of about $15,000,000.

Beginning January 1, 1918, the lines west of the Pittsburg formerly operated by the Pennsylvania Co. were consolidated for operating purposes with the Pennsylvania R. R. The earnings of the system, therefore, based on the Government guarantee and on actual operating results for 1918 compare as follows:—

	Government Guarantee	Actual
Net operating income	$65,992,740	$22,214,395
Other income	22,601,747	22,601,747
	$88,594,487	$44,816,142
Total deduction	44,523,588	44,523,588
Final net	$44,070,899	$292,554
Per cent. on stock	8.81%	.06%

It is apparent that the maintenance of the 6% Pennsylvania dividend is dependent, for the time being at least, upon the Government rental. And when we consider that the gross revenue of the Pennsylvania R. R. proper and the lines formerly run by the Pennsylvania Company was over $100,000,000 greater in 1918 than in 1917, the inability of the system to earn any material balance over fixed charges would seem to offer rather convincing evidence of the inefficiency of Government control.

For while gross increased $104,000,000, expenses of operation increased from $288,400,000 to $420,000,000, or $131,600,000. The more important items of expense were as follows, in 1918 and 1917:—

	1918	1917	% Increase
Maintenance of way	$66,673,933	$43,369,003	53%
Maintenance of equipment	124,315,287	73,541,960	69
Transportation expense	209,169,622	153,290,965	36
Total expenses	420,174,779	288,397,155	45

One of the contributing causes to this tremendous increase in costs of doing business may, possibly, be found in the statement by a prominent railroad man, that the Pennsylvania system, on December 31, 1918, had 273,101 employees, as against 233,600 the year before, in spite of the fact that the ton mileage in 1918 was smaller than in 1917. In other words, under Government control, the Pennsylvania required 40,000 more employees to handle a smaller amount of traffic than under private control.

An interesting feature of the annual report is the reduction in the holdings of Southern Pacific stock. It will be remembered that several years ago the Pennsylvania acquired from the Union Pacific a large ownership of Southern Pacific shares in exchange for Baltimore & Ohio stock. The total original holdings amounted to 382,924 shares of Southern Pacific. Up to January 1, 1918, 62,671 shares had been sold. During 1918, 145,288 additional shares were disposed of and one subsidiary still remains to be heard from. Since the exchange was made, Baltimore stock has declined considerably, while Southern Pacific has advanced. Altogether, the transaction must show the Pennsylvania a good profit.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
High Grade
Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 797 March 21, 1919

DEC 6 1926
UNIVERSITY OF ILLINOIS

THE GENERAL MARKET.—For a couple of weeks past there has been a large turnover of stocks without much change in price. Coming after a decided advance in many classes of stocks, even though it did not include the more standard issues, such a volume of transactions without apparent purpose, undoubtedly indicates distribution, or at least digestion.

We spoke recently of the desirability of business following up the lead of the security market; there are quite a few indications that this is taking place. The figures of building show some gain, and the same is true of reports in the textile industry. It is bound to be some little time before business is back to normal, but we anticipate that by mid-summer labor will be pretty generally employed. Indeed, broadly speaking, it begins to appear as though there would be no further recession in the price of commodities. A few—such as coal and steamship rates—have already had quite a rebound from their previous declines. Evidently the second period of inflation which has always followed great wars is already beginning. The momentum has not yet been lost. A continuance of high prices for commodities must have its corollary in the stock market in peace as well as in war. Looking perhaps several years ahead, there must come a time of severe reaction; in short, of depression. For the time being, however, the deflating process has apparently reached its limit, and the pendulum has begun to swing upward. We believe it fairly safe to count on this for the balance of this year at least.

The February figures of foreign trade show a continuance of the same tremendous balance in our favor. They must bring home to every fair-minded man not only the advantageous position of this country, but the financial obligation we are under to assist the rest of the world in restoring an equilibrium. To keep on piling up such balances is really not to our advantage. Our war drain has been comparatively slight; our war revenue tremendous. It has given us a position of financial supremacy of which we should take no mean advantage. If we adopt a broad concept of our responsibility, we can earn Europe's gratitude financially no less than by our military assistance. If, on the other hand, we insist on our pound of flesh we shall earn, not only contempt, but well-merited disaster.

The greatest immediate domestic problem is that of the railroads. We have defined our position so frequently as to make it hardly necessary to dwell on this. We believe it has been brought home to the American people, that the touch of Government on business is paralyzing. To extricate the railroads from their present tangle is a great undertaking. If it can be done and the interest of all the three parties at stake—the public, the employees and the owners reasonably safe-guarded—it will be a great triumph for American business. It would open up a field for the investment of capital and for legitimate speculation that has been practically closed for a decade past.

Marketwise, for the present, we should expect some further marking of time; possibly, with some reaction in the specialties that have recently scored sensational gains, but nothing really serious for the list as a whole.

We believe that the tendency through the year will be constructive, and whenever the advance is resumed, we should expect it to be led by those stocks hitherto rather neglected, viz.: by what are generally regarded as the standard issues.

BETHLEHEM STEEL.—Although the preliminary report had pretty well prepared the public for the final results, yet it seems to us that there is one feature that the final report brings out that deserves considerable emphasis, viz.: that Bethlehem Steel is one of the very few companies that have so far reported, that shows an operating profit before depreciation but **after** taxes, larger in 1918 than in the preceding year. To get the proper angle on this business, it is necessary to consider not only the fact that it has made tremendous profits during the last four years, but that 80% of these profits have been reinvested in this business; thus, of total net profits after all charges in these four years of $104,608,000, only $24,108,000 have been paid out in dividends, leaving $80,500,000 that have been put back into the business in one form or another. This sum is equivalent to $134 a share on the 600,000 shares of the common stock as it stands today. Moreover, this is after depreciation charges amounting to $68,488,000.

Probably most of the interest in the final report will center in the company's balance sheet. Bethlehem Steel, by reason of the tremendous demands upon it by the Government for its products necessarily has been called upon to expand so rapidly that there has quite naturally arisen some apprehension over the company's current financial resources. It must be something of a relief to those who have entertained this

fear, to find that at the close of the year it had net current assets of over $80,000,000, which compares with $73,000,000 at the close of 1917, $36,000,000 at the close of 1916, and $14,000,000 at the close of 1915. Not only this, but $37,600,000 of British Notes which had been held as security have since been paid and replaced by $70,000,000 of the company's own bonds, thus virtually adding that sum to the company's current resources. In spite of the necessarily large increase in capitalization, we think it is interesting to note that it required last year only a little over 2% of the company's gross sales to meet its interest charges.

There is quite general popular misconception that Bethlehem Steel is primarily a munition making and specialty business. Emphasis should accordingly be laid on the statement in the report that the end of the war finds that company "prepared to meet the readjustments in volume and character of business and in organization and methods necessary in the transition from a period of intensive war-time production to an orderly and highly competitive peace-time basis." The statement that the company will have an annual capacity of over 3,000,000 tons of steel ingots, and plans to convert this tonnage into commercial products further bears out this assertion.

Previous to the war, Bethlehem Steel had shown an unusual ability to keep its end up under highly competitive conditions. Today it is necessarily in every respect a very different proposition from what it was then, but we think the fact should be noted that it would require a return on its net property values of $314,000,000, of only 6% to meet interest charges and the dividends that the company has recently been paying.

AMERICAN TELEPHONE & TELEGRAPH.—It is a little unfortunate that the greatest need of American Telephone and Telegraph (the Bell system) has in a certain sense been obscured by the satisfaction felt over a comparison of 1917 and 1918 share profits. When the 1917 report was issued showing a balance of but $8.84 per share for the $435,658,724 stock outstanding December 31, 1917, it was regarded in many quarters as forecasting a reduction in the 8% dividend rate. The fact that the equity in the undivided profits of the subsidiary companies was equal to another 2% was almost completely ignored.

Therefore, the fact that the year to December 31, 1918, showed 9.93% for the $441,947,338 stock outstanding on that date has been generally construed as evidence of a satisfactory revival in earning power.

We have no wish to decry nor in any way appear to reflect upon the prime investment value of American Telephone bonds or stock. Any company with 40 years of successful dividend history behind it obviously stands in a unique investment position. At the same time it is only proper that the basis upon which this earning power was founded should be frankly considered. And especially in view of the Government taking over of American Telephone it is necessary to give unusual consideration to the meaning of the 1918 results.

The 9.93% shown for Telephone stock in 1918 was based on profits derived from private operation for seven months to July 31 and from a Government compensation based on an annual allowance of $65,148,641.

These earnings, however, were made possible by a reduction in the depreciation charge. In years gone by Telephone has charged into earnings yearly for depreciation a sum equal to 5.7% of property valuation. The reduction in depreciation during 1918 was not serious, but it did amount in dollars to a sum sufficient to make a showing of earnings somewhat more favorable than the comparative facts warrant.

If American Telephone is turned back to private operation later on in 1919 the first great need it will face will be an immediate increase in rates. Therefore, it is a bit unfortunate that the need of this rate increase has been partially obscured by a comparative betterment in earnings which does not really exist.

The increases granted to the Bell system since 1913 have been extremely niggardly, amounting to but about 4%, compared with 16% for street railways and 26 to 27% for railroad freight and passenger service.

Obviously, if American Telephone is to furnish the quality of service it gave before the war it needs higher rates and a restoration of the old 5.7% of property basis of depreciation.

ST. LOUIS-SAN FRANCISCO RY.—Under the Government guarantee the St. Louis-San Francisco Ry. appears to be assured of an income just about sufficient to cover the interest requirements on its adjustment and income bonds leaving only an insignificant balance for the preferred stock. The standard return based on the average net income for the three years ended June 30, 1917, amounts to $13,363,178. After adding estimated other income and deducting fixed charges, there would remain about $4,770,000 to be applied to the $38,739,418 of cumulative 6% adjustment mortgage bonds and the $35,192,000 of 6% income mortgage bonds. It requires about $2,324,400 to pay the interest in the first and $2,111,520 to pay the interest on the second, or a total of approximately $4,435,920.

In the year ended December 31, 1918, the actual net operating income amounted to $11,199,410, as compared with $16,427,707 in 1917 and a Government guarantee of $13,363,178. The 1918 earnings fell short of the guaranteed income by $2,163,768, or just about the sum required to pay the interest on the 6% income bonds. The interest on the adjustment mortgage bonds is, therefore, fully covered not only by the Government compensation, but by actual current earnings, while the income bond interest is dependent entirely, at present, on the Government guarantee.

These two issues of bonds, although they are secured by a mortgage on the company's entire property subject to prior liens aggregating about $126,000,000, really occupy a position not much different from preferred stock, except that they have a definite maturity date. The adjustment mortgage 6s are cumulative and mature in 1955. Their interest is payable, when earned, semi-annually, April and October 1. The income mortgage 6s are non-cumulative and mature in 1960. Their interest is payable, when earned, annually, October 1. The interest on both issues is being paid.

The adjustment 6s are now selling in the vicinity of 67, at which price they yield 9% without regard to amortization. As a speculative investment they would appear to have some rather attractive possibilities. The income 6s are selling around 44 and are, of course, considerably more speculative than the adjustment bonds.

SINCLAIR OIL & REFINING.—The recent strength in Sinclair Oil shares is in some considerable measure due to recongition of the fact that the company has virtually ended its period of major physical expansion. During the 12 months to March 31, Sinclair Oil will have spent an average of $1,250,000 per month for property additions and improvements. This sum has been derived almost entirely from surplus profits above taxes and interest and from use of depreciation charged to earnings.

The construction program it is now expected will show a very sharp decline after May 1. This does not mean that Sinclair Oil will close its eyes to favorable opportunities in the future, but it does mean that the program of heavy expenditures undertaken in 1917 has now reached a point where the company possesses a combination of producing oil wells, pipe lines, tank cars, refineries and a distributing system sufficient to insure its trade position.

It is understood that for the second half of 1918 net profits of Sinclair Oil were at the annual rate of between $6 and $7 per share on its 1,000,000 shares of stock. This was after interest on nearly $30,000,000 of notes and other debt, after taxes and after a depreciation charge averaging better than $500,000 per month.

Sinclair Oil passed the $5 dividend on its stock in April of last year. It was found impossible to carry water on both shoulders. The money used for dividends was needed for physical development.

Sinclair Oil has outstanding at present about $18,000,000 7% first lien notes maturing August 1, 1920. They are convertible into stock at $47.50 per share up to August 1 of this year and thereafter at $50 per share. If all notes were to be converted it would create 450,000 additional shares of stock and if conversion were effected before August 1 it would represent nearly $22,000,000, of which $18,000,000 would be used for retirement of the notes, leaving the company about $4,000,000 of new cash.

This $4,000,000 would pay off 80% of the present floating debt.

Sinclair Oil earnings in 1919 should be naturally greater than last year. For one thing the weather of January, February and March, 1919, was so severe as to cut profits of those two months to 50% of normal expectancy. The refinery capacity has furthermore been expanded to 40,000 barrels per day. Broadly speaking, the $15,000,000 put back into property in the last 12 months has had time to become revenue producing.

Sinclair Oil is clearly some distance away from dividends. The mistake of paying dividends too soon is not likely to be duplicated.

Meantime, the company with its present strong trend to earnings faces a fairly good prospect of seeing the great bulk of its notes converted before they come due. With the notes out of the way and bank loans paid off Sinclair Oil could easily take care of the $5,000,000 to $6,000,000 of remaining obligations even if it were found inexpedient to employ surplus earnings for their cancellation. The coming 17 months are likely to witness very interesting developments for Sinclair Oil.

WESTINGHOUSE ELECTRIC.—After the sale by Westinghouse Electric of its approximately $6,000,000 of Electric Holdings, Ltd., 6% prior lien debenture bonds is finally consummated, it should give the company between $6,500,000 and $7,000,000 in cash.

Officials of Westinghouse Electric have been in England for some weeks negotiating this sale.

It may be recalled that in the latter part of 1916 Westinghouse Electric disposed of its majority control in the British Westinghouse Electric & Manufacturing Co., Ltd. It did so in deference to the feeling on the part of British authorities that this important industry should be controlled by British rather than American capital. In disposing of its 4% debenture stock, preference and ordinary shares of British Westinghouse Electric Company, Westinghouse Electric took 5% prior lien debenture bonds of a new company known as the Electric Holdings, Ltd., in payment. It is these bonds which presumably have now been sold and converted into cash. In addition, Westinghouse Electric has about $1,500,000 of miscellaneous traction and power securities which it will probably sell at the same time.

Therefore, it would seem probable that the company is in a way to realize approximately $8,000,000 in cash through the sale of these securities. Presumably the transaction involves certain trading agreements and definitions of territory in Europe, so that in the future Westinghouse Electric should not be hampered in finding export markets in Europe.

The broad effect of this transaction will be to give the company $7,000,000 to $8,000,000 cash to apply against its floating debt, which on March 31, 1918, stood at $30,180,151, and which as late as January 1 was not far from $24,000,000. With further reduction in inventories and the utilization of this cash, it seems reasonably safe to believe that by the end of this month, which is also the close of its fiscal year, Westinghouse Electric can show a floating debt of not much more than $10,000,000 to $12,000,000.

OSCEOLA.—As one of the first reports of the more substantial producers to be published, that of the Osceola Consolidated Mining Company will be studied with a good deal of interest. While it would appear, at first glance, that the company paid out in dividends nearly twice as much as earned, it will be seen that the expenses included an increase of nearly $500,000 in reserve for depreciation and depletion. Consequently, the balance sheet which, as in the case of most Lake Superior Companies, is simply a statement of net quick assets, instead of showing a considerable shrinkage in surplus, shows an actual gain of about $240,000.

Nevertheless, the figures show how necessary was the recent reduction in wages at the mining camp. The cost of the copper delivered for the year was 16.88 cents per pound, and to this will have to be added about 4 cents per pound for taxes, making total costs of nearly 21 cents.

The fact is, however, that 1918 was one of the most abnormal years through which the copper industry has ever passed, and we believe that the operating figures for that year will not at all serve as a criterion for future results. In the first place, with copper at its present figure, the item of excess taxation would be almost altogether eliminated. Then there is not only the direct saving that it will be possible to effect in wages, but the indirect saving in many other respects, not the least of which is the very decided increase in efficiency which has already been noted.

Really, the only important feature, so far as furnishing a basis for estimating the future, as we look at it, was the yield per ton of rock, and this, outside of the Osceola proper, where a fair increase was recorded, showed very little change.

In the competitive period that we are now re-entering, it would appear that the South Kearsarge branch, with its higher yield of copper, and its lower cost per ton, would, as in the period immediately preceding the war, be again the company's chief source of revenue.

AMERICAN BEET SUGAR.—The fiscal year of American Beet Sugar to end March 31 will work out considerably better than seemed likely four months ago. At that time there was grave doubt that the 8% dividend on the $15,000,000 common stock would be fully earned. In fact, at the time this stock dropped to 48 in November it was currently suspected that common dividends were on the eve of suspension.

Officials of American Beet Sugar are now reasonably confident that the March 31 annual statement will show the 6% dividend on the $5,000,000 preferred and the 8% dividend for the common fully earned and a balance of $100,000 to $150,000 for surplus.

These profits will be based on sales of about 900,000 bags of sugar compared with 1,629,298 bags in the 1917–1918 year and 2,186,067 bags in the 1916–1917 fiscal period. In other words, despite the severest crop failure which the company has experienced for many years, it promises to earn its dividends with a small surplus to the good.

American Beet Sugar has so far contracted for more acreage of beets for this fall's campaign than were under contract for the 1918 season. Last year only 43,525 acres were under contract, compared with 78,707 in 1917. So far contracts have been placed for 48,000 acres and the prospect is that the total will reach 65,000 to 70,000 acres before the slicing season is under way. The present expectation is for a crop of 1,300,000 to 1,400,000 bags. This, with a carryover of 225,000 bags, will give the company a selling profit on a possible total of 1,500,000 to 1,600,000 bags, although, of course, as a matter of selling policy American Beet Sugar must always have unsold sugar on March 31 to distribute during the interval before the new crop starts.

INTERNATIONAL CEMENT CORPORATION.—The following cable, dated March 17, has been received from the president of the International Cement Corporation:—

"Outside minor mechanical adjustments, conditions plant satisfactory. Kilns and grinding equipment possibly excepting compeb mills ample capacity two thousand barrels. Crusher installation necessary but barring labor troubles contemplate handloading until Cuban crusher available. Average total cost including overhead depreciation till February 1 approximately eight dollars sixty cents gold average price realized ten sixty. Market conditions account strike very uncertain although San Martin favorably accepted everywhere."

"San Martin" is the trade name that has been adopted for this corporation's cement.

We are also advised by a cable, dated March 19, that about 1,400 barrels of clinker and the same quantity of cement were made on March 10 and 11, while the shipments have been moving practically every day from March 1 to March 14—which is the last date for which we have report—and 2,650 barrels were shipped from the mill in that period.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

H H

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WEEKLY MARKET LETTER

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No. 798 March 28, 1919

THE GENERAL MARKET.—The United States has become so closely bound to the rest of the world that it is no surprise that the further spread of disturbance in Central Europe should be reflected in the markets here. The only wonder is that, after such an advance as we have had in the last month, there should not already have been a greater relapse. Whatever may be one's political views, from a financial standpoint there is no question that the delay in signing a definite peace treaty is a great mistake. Temporizing with Bolshevism is imperilling property values the world over. We cannot expect any further large uplift in securities until this menace is removed or, at least, curbed.

Foreign political news has, naturally, so monopolized attention that the report of steps taken to finance exports has passed almost unnoticed, yet it is of the first importance. Such a provision under present conditions is indispensable to any large foreign business. Another good report is the improvement in the English labor situation.

It will not be long now until men's thoughts and energies are centered on the fifth and last Liberty Loan, largely to the exclusion of other financial matters. Until it becomes evident that this will be carried through to success it will, naturally and properly, overshadow the stock market.

We have had quite a good spring rise and it will do the market no harm to rest a few weeks. This, perhaps, is putting as cheerful a construction on the situation as possible, for with the clouds thickening abroad and another Liberty Loan approaching, this is probably the best that could be expected.

We have not at all altered our belief, that we shall enjoy a period of large constructive activity such as has been predicted by so many, but this can hardly materialize rapidly under such disturbed conditions.

For the long pull, we are decidedly optimistic and if we have some little setback during the next few weeks, we believe advantage should be taken of this for the uplift which we are hopeful will later be a matter of months.

TEXAS COMPANY.—Net profits of the Texas Company for its half year to December 31 reflect increased cost of operation, some disturbance to oil prices and continued heavy charges for depreciation.

Gross sales for the half year of $44,522,599 were at an annual rate of $89,000,000 contrasted with $80,260,633 in the fiscal year to June 30, 1918, and $54,339,050 in the 1917 fiscal period. And yet net profits after operating expenses in the six months were $15,996,891, or at an annual rate of $32,000,000 compared with $34,873,402 in the June 30, 1918, fiscal twelvemonth. In short, $9,000,000 larger gross is being accompanied by $2,800,000 smaller net.

Texas Oil ranks as one of the three or four complete oil companies in the United States. It touches every phase of the oil industry from crude oil prospecting and production to retail distribution and large and diversified foreign shipments. With a working force of 20,000 employees it has naturally experienced heavy additions to its wage bill.

After November 11 there were some sharp declines in the prices of crude oil and particularly heavy crudes. Certain grades of heavy crude declined 50%, others 30 and 40%. The effect of these price declines has naturally shown itself in net profits. Prices of light crudes have done far better and even in heavy crudes the force of the decline seems to have spent itself and prices are beginning to turn upward again.

A decline in crude oils is not altogether a misfortune to Texas Company, which buys nearly 50% of the crude which its refineries and distributing organization handle. Like Standard Oil companies, Texas Company finds the larger share of its profits flowing from the refining and distributing end of the business.

In the half year to December 31, Texas Company earned a balance of $12.68 per share on its $69,375,000 stock, or at the rate of $25.26 per share.

The fiscal year has, however, been changed to conform to the calendar period and the 1919 net profits will be calculated on $85,000,000 stock, $13,875,000 additional stock being offered to shareholders of record, December 30, 1918. In addition, $1,750,000 was issued to be distributed to employees at par. This $15,625,000 new stock participates in dividends from July 1, 1919.

On $85,000,000 stock Texas Company is earning at the rate of $20, compared with share profits of $29.75 in the June 30, 1918, fiscal year and $35.50 in 1917. But the $15,625,000 of new stock has, of course, yet to demonstrate its income producing capacity. Further than that Texas Company is now charging $14,200,000 yearly to depreciation, taxes and reserves, against but $3,183,398 in the 1917 fiscal year.

In fact, depreciation alone in the six months to December 31 was at an annual rate of a little more than $8,000,000, an increase of 50% over the June 30 twelvemonths setup for this purpose of $5,297,988.

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Texas Company continues to strengthen its remarkable treasury and working capital position. At the close of 1918 working capital amounted to $81,127,406, a gain of $4,226,571, or 5% since June 30. The proceeds of the new stock issue will only go in part into new property, so that by June 30 next, Texas Company should have at a minimum estimate a balance of net quick assets of $90,000,000.

COPPER REPORTS.—While the cost of production and the financial results for such an abnormal year as 1918 furnish little criterion of any company's earning ability under normal conditions—and should not be too seriously regarded—yet it is rather interesting to note what the companies were able to do under such conditions and to compare results, not so much with those of former years as with the corresponding figures of other companies. Such items as yield per ton of rock and general mining development have, of course, quite as much significance as ever, and on a comparative basis more emphasis should be placed on these.

Isle Royale.—Of the Lake Superior companies that have so far reported, Isle Royale showed, by all odds, the best comparative results. It is, indeed, almost startling to find that the yield per ton of rock is more than two pounds greater, and the cost of production more than two cents per pound less than at the Allouez, with the result that its final profit was very much larger. In the last three years, Isle Royale's output has risen from 9,342,000 pounds to 15,442,000, a gain of nearly two-thirds; in short, this company has made decidedly the largest gain, the result of several years of persistent development, and is now in a position to offer stiff competition.

The more important items compare with those of previous years as follows:—

	1918	1917	1916	1915
Tons treated	974,508	922,160	925,419	680,270
Pounds per ton	15.9	14.6	13.4	13.7
Pounds copper	15,442,508	13,480,921	12,412,111	9,342,106
Cost	*16.8c.	*15.74c.	15.32c.	14.52c.
Net profit	$628,304†	$1,012,917†	$1,396,655	$498,277
Net profit per share	$4.20	$6.75	$9.30	$3.30

*Cost of copper delivered, exclusive of excess taxes.
†Net after income and excess profits taxes.

At the close of the year, the company had net current assets of $1,134,000, equivalent to over $7 per share—one of the largest amounts, in proportion to the selling price of the stock, of any of the copper companies.

Ahmeek.—Next to the Isle Royale, the Ahmeek makes the best comparative showing. There was a drop in the yield of the rock of 1.2 per pound, though the yield was no less than in 1916. The cost per pound shows rather a large advance, though with all these companies, it is to be noted, the 1918 cost included the allowance for depreciation which those for 1917 did not:—

	1918	1917	1916	1915
Tons treated	1,196,541	1,271,275	1,164,010	948,874
Pounds per ton	20.8	22.0	20.7	23.0
Pounds copper	24,851,235	27,919,812	24,142,158	21,800,492
Cost	*13.43c.	*9.42c.	11.47c.	7.90c.
Net profit	$1,534,625†	$2,341,511†	$3,449,709	$2,264,882
Net profit per share	$7.67	$11.70	$17.25	$11.30

*Cost of copper delivered, exclusive of excess profits.
†Net after income and excess profits taxes.

Ahmeek was also strong in current assets, showing a balance at the close of the year of over $2,000,000, or $10 per share.

Allouez.—The report for this company was, frankly, rather disappointing; not so much because of the jump of over 5 cents per pound in the cost of production, but because of the further drop in the copper content of the rock. A decrease in three years' time from 18¾ pounds per ton to 13¾ is a serious matter. There is always the possibility of an improvement in this respect, but unless there is, the Allouez is not likely to revert—even on a restoration of normal conditions—to its cost of 9 and 10 cents per pound, which it showed in 1915 and 1916:—

	1918	1917	1916	1915
Tons treated	518,888	566,674	566,960	534,705
Pounds per ton	13.73	15.69	18.02	18.78
Pounds copper	7,071,218	8,892,915	10,219,290	10,043,459
Cost	*19.09c.	*13.84c.	10.47c.	9.05c.
Net profit	$189,484†	$812,544†	$1,524,510	$924,680
Net profit per share	$1.90	$8.12	$15.24	$9.24

*Cost of copper delivered, exclusive of excess profits.
†Net after income and excess profits taxes.

WORTHINGTON PUMP.—In its fiscal year to December 31, 1918, Worthington Pump showed earnings for the $12,992,149 common $13 to $15 less than had been generally expected up to within a few weeks of the issuance of the annual statement. The actual balance for the common of $2,126,976 or $16.37 per share compared with an expectation of $30 to $32 per share and with actual common stock profits in 1917 of $28.54 per share.

Worthington Pump, however, treated its 1918 depreciation and inventory accounts with great liberality. In fact, the decline in the manufacturing profit from 21.5% in 1917 to 17.0% in the year just ended is an indication that the company has probably taken the opportunity of putting its financial affairs in prime condition. On its comparatively small common stock capitalization of $12,992,149, an increase in depreciation of even $1,200,000 would make a difference of nearly $10 per share in the balance for the common.

Worthington Pump did not emerge from receivership until April, 1916. It was, therefore, not a beneficiary of the heavy foreign purchases which gave so many American corporations their big 1915 and 1916 profits.

Broadly speaking, Worthington Pump did not feel the effect of war conditions until the United States itself had entered the war. In 1917 and 1918 a common stock balance of nearly $46 per share was earned, none of which has been distributed in dividends.

The significant features of Worthington's development since its emergence from receivership are to be found in its balance sheet. Working capital for instance in two years has doubled from $9,331,781 to $19,006,169, the exact gain being $9,674,388, or 103.6%. The expansion in quick assets is very well pictured in the following:—

Working Capital Position

December 31	1918	1917	1916
Current assets	$29,486,415	$20,513,979	$11,535,884
Current liabilities	10,480,246	5,448,431	2,204,103
Net current assets	19,006,169	15,065,548	9,331,781
Preferred A & B	15,914,504	15,914,504	15,914,504
Balance	3,091,665	——	——
$ per share common	23.70	——	——

It will be noted that at the end of December the company for the first time in its history had a balance of quick assets equal to the par of its 7% and 6% preferred stocks with a surplus equal to $23.70 per share for the common.

Another significant development has been the sane treatment of property account. Since April 1, 1616, and through December 31, 1918, a total of $5,657,117 has been charged to depreciation and amortization of physical plant, so that plant account now stands at $8,962,697, compared with $10,006,657 on April 1, 1916. In addition, $4,613,157 had been expended for additions in the two years and eight months since the receivership was lifted.

Worthington Pump on January 1 had $26,161,859 of unfilled orders. This was after cancellation of $6,000,000 or $7,000,000 of orders following the signing of the armistice. It is possible there may be further cancellations, but such cancellations are not expected to exceed $4,000,000 or $5,000,000.

New business in January and February came in at the rate of $1,250,000 per month, or $15,000,000 per annum. March orders will probably be at a somewhat higher rate.

The question of common dividends apparently is not a matter of immediate consideration. If later this year good-sized pump and engine orders should be placed and the prospects favored continued gross sales of $20,000,000 to $25,000,000 per annum, some common dividend action might be taken.

GENERAL ASPHALT.—General Asphalt's $9,862,000 common stock during the past nine months has been steadily appreciating in price from 15 or 16 to a recent high of 71. The explanation of the advance is to be found in the development of the Venezuela oil concessions which the company holds.

For some years General Asphalt has had a considerable oil production on the Island of Trinidad, but the difficulties of drilling have prevented any large development. In recent years, for instance, the Trinidad production has averaged 200,000 to 300,000 barrels per annum.

But on the mainland of Venezuela some apparently immense deposits of oil have been located. The General Asphalt Company early in its prospecting in Venezuela realized that it had uncovered an oil situation which was too large to be handled alone. With its $23,000,000 capital and small borrowing capacity, General Asphalt was not in financial shape to handle a proposition involving millions.

The Venezuelan oil development is being handled through a subsidiary known as the Caribbean Petroleum Company. The Caribbean Company promises to become in time the big end of the General Asphalt Company.

The Royal Dutch interests in 1917 acquired a very substantial interest in the Caribbean Petroleum Company in return for their agreement to finance the production and refining of this Venezuelan oil. With its great capital resources and world-wide interests the entrance of the Royal Dutch people into this enterprise has given it a standing of considerable importance. Royal Dutch has already advanced money to complete a refinery at Curacao with a capacity of 8,000 to 9,000 barrels daily.

It is understood that drilling has already uncovered two large wells, one of 25,000 and another of 10,000 barrels per day. In all there is said to be a drilled production in sight of 50,000 barrels per day.

The Caribbean Petroleum Company will doubtless require considerable time to become a large producer. It apparently has an abundance of crude oil, much of which can be utilized direct as fuel oil without refining. The exporting of this oil would require a considerable fleet of tank steamers so that no broad markets can be developed until Royal Dutch builds or diverts surplus tankers to Venezuela.

General Asphalt in 1918 had a year of excellent profits despite decreased tonnage sale of asphalt for paving purposes. It is understood that the 12 months to December 31 last showed a balance for the $9,862,000 common after taxes, interest on $2,854,000 bonds and 5% dividends on $13,400,000 preferred of about $5 per share compared with $3.72 in 1917 and $2.73 in 1916.

The resumption of road building in the United States will be of decided benefit to General Asphalt, which has now practically suspended its former function of road builder and is instead selling asphalt at wholesale to contractors.

It is, of course, obvious that it is the oil side of General Asphalt and not its asphalt business which is responsible for the steady upward movement in the common stock.

UNITED DRUG.—The increase in the dividend rate on the common stock of the United Drug Co. from a 5% to a 7% rate emphasizes anew the remarkable expansion in earnings which this company has enjoyed.

Organized in 1916 the present corporation is, in effect, a consolidation of the original United Drug business, which was established in 1903 and the Riker & Hegeman Co., which owned a chain of retail drug stores throughout the country. In 1903 the gross business done amounted to only $60,000. In 1918 the United Drug Co. did a gross business of $51,000,000.

The present corporation has been in existence only three years, but even in that short period of time its growth has been nothing short of phenomenal. The comparative record has been as follows:—

Year to Dec. 31	1918	1917	1916*
Gross sales	$51,028,335	$40,716,290	$33,404,866
Net income	4,579,922	3,156,007	2,014,809
Preferred dividends	1,071,540	1,071,540	604,353
Balance for common	$3,508,382	$2,084,467	$1,401,456
Per cent. on common	17.52%	10.40%	7.03%

*Eleven months.

No allowance has been made for federal taxes in the above figures. The 1917 taxes paid in 1918 amounted to $339,450, or the equivalent of almost 1.7% on the common stock. Therefore, actual share earnings after taxes for 1917 were equal to 8.7%. Assuming that the tax bill for 1918 may come to as much as $750,000, the final balance for the junior stock issue would be approximately 13.75%.

Net working capital as of December 31, 1917, stood at $12,265,237, as against a little over $10,000,000 the preceding year, and $9,300,000 at the close of 1916. Large as this increase in working capital is, it has hardly kept pace with the gain in gross.

During the first two months of 1919 the company's manufacturing business increased 50% over that of the same period in 1918, and the month of February was 100% ahead of last year. Such a rapid expansion has made necessary a considerable extension to producing facilities, the financing of which may shortly bring valuable rights to present shareholders.

In short, as regards current earnings and prospects, there would appear to be no reason why United Drug common should not be considered on a permanent 7% basis. If the growth of the next few years is anything like that of the last few, extra distributions or an increased dividend rate are well within the range of possibility.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
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Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 799 April 4, 1919

THE GENERAL MARKET.—Lest we imagine that present conditions are entirely unprecedented, and that we of today have a monopoly of social and industrial unrest, the following may prove of interest:—

"The Mayor urged the prosecution of public works, and recommended the purchase by the city of 50,000 barrels of flour and corresponding quantities of provisions to be given laborers at cost prices in payment for their labor.

"'Truly may it be said,' he declared, 'that those who produce everything, get nothing, and those who produce nothing, get everything. They labor without income while surrounded by those living in affluence and splendor who have income without labor.' A procession of the unemployed marched through the streets to the music of a drum. Crowds of people cried 'Bread or death.' A meeting prompted by foreigners was held at which violent and menacing speeches and peremptory demands for employment were made. . . . It seemed as if the prediction made six months before had come true, 'that the demagogue had appeared, ranting about the tyranny of capital and usurers and asking why anybody should be permitted to drink champagne and to ride in a carriage, while thousands of honest folk are in want of necessities, and that working men, hearing their children cry for more bread and the Huns and Vandals engendered by our institutions would choose to the high place the demagogue who had flattered them.'"

Substitute "automobile" for "carriage" and this quotation might almost have been taken from yesterday's paper. As a matter of fact, it is quoted from the work of a well-known historian, describing conditions as they existed in New York City in 1857. The fact is, that the present turmoil is the inevitable aftermath of four years of world upheaval. Not that we would minimize, in any way, the seriousness of present problems, or appear to turn a deaf ear to the just pleas of ravished and oppressed peoples all over the world, but we are confident that with the greatest minds of the world intent on the problem, and the tremendous added advantage of instant communication and reflection of public opinion to correct any mistakes the problem will, ultimately, be solved.

We think that the difficulties have been unnecessarily prolonged and danger unnecessarily created by the order in which the business has been taken up, and that a quicker signing of the peace treaty would have done away with much of the disturbance. But just because the problems are so tremendous, they must, ultimately, be solved. So admitting all the mistakes that have been made and the current danger, the fact remains that the present unrest is probably temporary, and from a financial standpoint, we believe that the market does well virtually to disregard it.

In other words, the market as usual is looking forward to the next step, which, undoubtedly, will be that of reconstruction. Soon the problem to be faced will not be lack of demand for goods, but means to finance their purchase. Two developments of the week have been interesting in this connection, the first is the apparent revelation that in spite of tremendous wages, our producers of steel are able to deliver their product at less cost than those of England. Apparently, the rise in labor has been even greater, proportionately, abroad than here. This is of the first importance in the matter of competing for the world's market.

Secondly, has been the fall in England and French exchange. It cannot be too often reiterated that, next to subscribing to our own Victory Loan, it is our duty to inculcate the habit of investing in foreign securities. It is good business and good ethics.

It is now five months since the Armistice, and though there has been some recession in prices, for the most part they remain stubbornly high. Evidently the extremists of neither school are correct. There should certainly be some recession from war levels, more than there has been in most articles, but it is also equally true that they will not go back, as a whole, to pre-war levels.

In this connection, it is pertinent to point out the unique position of copper. Here is one important commodity that is back to actual pre-war prices. Admittedly, profits at the moment are narrow, but certainly there is no further recession to fear; no question but that the worst has been discounted. On the contrary, while we have been hearing a good deal about the accumulation of the metal in the hands of governments and producers, little mention has been made of the other side of the picture, of the utter lack of the metal in the stores of the final users, of the copper vacuum that exists in Central Europe. The situation is being ably handled, and we believe that in another six months there will be very much less talk about these accumulations of copper, for the simple reason that they will have ceased to exist. It might also be opportune to point out that this is one industry that has never needed or sought any tariff protection.

If it is true, as we believe, that we are entering on the secondary period of inflation, the principle so thoroughly brought out during four years of war, of necessarily large income from securities to offset high prices, holds as good today as during war times. It accounts for and justifies high prices for stocks on the prospect of large monetary returns and continued low level of bonds. So far as one can now look ahead, this tendency promises to continue.

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MIDVALE STEEL.—One of the most interesting phases of the annual statement of Midvale Steel for its fiscal year to December 31, 1918, is the extreme conservatism employed in charging earnings for depreciation, amortization, repairs and maintenance.

An analysis of the Income Account shows that in the late year Midvale charged against earnings a total of $40,209,339 for depreciation, maintenance and repair accounts as compared with $20,663,017 in 1917, an increase of $19,546,322, or 95%. The detail is shown in the following comparison:—

	1918	1917	Increase
Repairs and maintenance	$20,600,000	$13,836,596	$6,763,404
Depreciation	9,915,776	6,826,421	3,089,355
Amortization	5,193,563	——	5,193,563
Inventory depreication	4,500,000	——	4,500,000
Total	$40,209,339	$20,663,017	$19,546,322

It is, of course, obvious that the company was permitted under the Federal tax law to amortize the excessive cost of new construction undertaken during the war period to satisfy the Government's demands. It will also be observed that the company has set up $4,500,000 for depreciation of inventories, a sum substantially equal to 10% on the inventory of $48,099,000 as it stood on December 31.

Midvale Steel has now operated for a period of three years and three months. During the three fiscal years to December 31 last the company earned a balance for its 2,000,000 shares of $48.89 per share, of which only $12 or one-quarter of the total has been distributed in dividends, leaving a balance of $36.89 per share, which has been added either to plant or working capital. This is within $10 a share of the present selling price of the stock.

Midvale Steel in its three fiscal years has increased its working capital balance from $59,382,612 to $91,034,383, a gain of $31,651,771, or slightly better than 50%. The result of this increase has been that at the end of last year the company had a surplus of net quick assets above the par of its own and subsidiary bonds, plus the small balance of subsidiary stocks still in the hands of the public, of $43,636,933, or $16.31 per share. The growth of working capital in the three years of the company's existence is shown below:—

	1918	1917	1916
Current assets	$120,749,168	$109,791,758	$76,985,915
Current liabilities	29,714,785	37,593,811	17,603,303
Working capital	91,034,383	72,197,947	59,382,612
Bonds and sub. stock in hands of public	58,397,450	39,941,450	59,003,851
Balance	32,636,933	12,256,497	378,761
Equals per share in $	16.31	6.12	——

One feature of the 1918 statement which attracts considerable interest are the figures of steel production. Midvale Steel up to the issuance of this annual report had steadfastly refrained from giving out its figures of steel output measured in tons. The main reason for this apparent secrecy is the fact that a very large part of the company's product represents finished steel or high-priced steel, so that a comparison on a tonnage basis with concerns like Lackawanna, Republic or Youngstown Sheet & Tube would be misleading.

Midvale Steel makes a very considerable tonnage of high grade nickel, chrome, vanadium and other alloy steels. For instance, its Nicetown plant turns out one grade of steel which sells as high as $3 per pound. Obviously, tonnage figures applied to this quality of output have comparatively little meaning.

It may be noted, however, that the production of 1,448,374 tons in 1918 showed a decrease of 165,999 tons from the 1917 figures, the decline being explained by the bad weather of January and February, 1918, and by the drop in production after the signing of the armistice on November 11.

Despite the fact that the Government had first call on 100% of the company's production, it is significant that only about 15% of the total output represented what may be classed as exclusively war purposes, that is, armor, ordnance shells and the like. In other words, 83% of the company's gross business represented normal peace lines of output, although, obviously, the great bulk of this steel went for purposes allied with the prosecution of the war.

It is perhaps to be regretted that the company has not shown in its income account the exact amount reserved for Federal taxes. The 1917 income account showed a charge against earnings for income and excess profits taxes of $25,731,910. The 1918 charge was very much in excess of this amount and will, undoubtedly, prove ample to meet the maximum requirements of the income and war profits tax law.

Obviously a new corporation like Midvale Steel, which has not had time to completely assimilate its subsidiaries the calculation of its war tax is a matter of much greater difficulty than would be the case with older and more completely assimilated corporations.

It may be safely assumed that in the past two years before striking a balance for dividends, Midvale Steel has set up a sum for taxes, maintenance, depreciation and amoritzation equal to more than the par of its $100,000,000 stock.

UNITED STATES SMELTING.—The 1918 income statement is hardly comparable with that of 1917, for the reason that the 1917 figures included an allowance for the taxes against the operation of that year while the 1918 figures do not. The tax and contribution allowance in 1917 was $692,000. Presumably, after the 1918 taxes are paid, the $4,775,000 profit reported for 1918 will be reduced very close to the final figure of 1917—$3,505,000. Not only this, but it is stated in the report that the book values of the unsold metals were reduced to the market values quoted at December 31, 1918—an arbitrary price of 20 cents per pound being assumed for copper. Since the close of the year there has been a further shrinkage in this and other metals, which—to be sure—will not be charged against the 1918 earnings, but will tend to reduce somewhat the profits for the current year.

The company followed the business-like proceeding of reducing the output of the metals in which there was a falling market—copper, lead and zinc—and increasing the production of silver and gold. With improving conditions in Mexico, the prospect of larger earnings from its silver mines, which are, apparently, its most important source of revenue, would seem to be very good. The company's two mills treated 58,000 tons of ore per month. This will be increased by additions to 80,000 and, possibly, by the erection of a third mill to 95,000, an increase over the 1918 treatment of over 60%.

It would probably be interesting to the company's shareholders to know a little more definitely the financial results of its coal property, to finance whose purchase the company guaranteed $10,000,000 of notes.

UNITED STATES RUBBER.—United States Rubber made a further substantial improvement in its financial position in the fiscal 12 months ended December 31, 1918. This betterment is in part measured by a gain of $9,799,421, or 11.6% in working capital accompanied as it was by a decrease of $9,965,600 in loans and notes payable.

Since the 6% dividend on the $36,000,000 common was passed in 1915 United States Rubber has devoted its energies to the betterment of its financial position, including a broad bond refunding program, which tied its scattered bond issues with two exceptions into a single issue of 5% first and refunding bonds.

In the four fiscal years 1915 to 1918 inclusive, United States Rubber has earned a balance above taxes, interest, depreciation and preferred dividends of $31,480,735, or 87.3% on the common. All but $540,000 of this amount has been retained in the business either as working capital or used for property additions.

The 12 months to December 31 last were easily the best in the company's history. Net sales for the first time reached a total of $200,000,000, the exact figures of $215,398,425 showing a gain of $39,238,731, or 22% over the previous year. Net profits of $39,480,631 were $13,262,050, or 51% larger than in 1917. For five years there has been a steady upward climb in the United States Rubber earnings, as is shown by the following:—

	Net Sales	Total Net	Bal. for Divs.	Bal. for Com.	% on Com.
1918	$215,398,425	$39,480,631	$16,072,042	$11,090,540	30.8%
1917	176,159,694	26,218,581	15,340,576	10,358,514	28.7
1916	126,759,129	12,748,841	11,226,208	6,271,125	17.4
1915	92,861,016	11,475,222	8,696,089	3,760,556	10.4
1914	83,678,812	10,170,559	7,868,224	2,881,951	8.6

It is worth noting that the ratio of net profits to sales was 18.3% in 1918, against 14.9% in 1917 and 14.3% in 1916. With $39,238,731 additional, sales net profits gained $13,262,050, so that United States Rubber in this respect stands in sharp contrast to many industrials which last year greatly expanded their overturn with no resultant benefit to net earnings.

The company's annual statement is deficient in respect to several matters of essential information. No figures are presented showing the amounts charged against earnings for depreciation, maintenance, amortization of plant construction during the war or reserves for inventory depreciation.

Comparison of balance sheets, however, shows that general reserves, insurance fund reserves, accident fund reserve and reserve for depreciation of property and plant increased during the year from $12,581,912 to $20,823,168, a gain of $8,241,256, of which $3,906,052 came in general reserves and $3,972,498 in reserves for property depreciation.

The amount set up for plant depreciation of $11,680,388 is less than 10% of the $134,886,551 book value of property, so that unless maintenance has been liberal United States Rubber is still deficient in its treatment of physical property depreciation.

On December 31 last, United States Rubber had net quick assets of $93,727,007, compared with $83,927,586 at the end of 1917, a gain of 11.6%. These quick assets cover its $68,600,000 bonds and notes at par and leave over $40 per share for the $61,722,200 first preferred.

It is most improbable that 1919 gross or net will continue at the remarkable pace established last year. The mild winter has already slowed down the demand for rubber boots and shoes. But tire sales will be large and profitable. In fact, the cutting down of inventories from $70,000,000 to $60,000,000 would make possible cancellation of floating debt and might lead to common dividend action.

CANADIAN PACIFIC.—The Canadian Pacific annual report for the year ended December 31, 1918, showed at the same time the largest gross income in the history of the corporation and the smallest balance

available for the common stock in a number of years. This company has had, of course, the same economic factors to contend with as the roads on this side of the Canadian border.

Gross earnings from railroad operations amounted to $157,537,698, as compared with $152,389,334 in 1917 and only $98,865,210 in 1915. As a result of increased expenses the net operating revenue was only $34,502,388, as against $46,546,018, the preceding period. Operating ratio was 78.10% for the year; last year it was 69.45% and the average for the past decade has been about 66%%. Increased wages have played an important part in the jump in operating ratio, the company being obliged to meet the same wage scales established on the American railroads.

It has been the custom of the Canadian Pacific to pay 7% of the total 10% common stock dividends from railroad operations and 3% from outside operations. After paying this 7% there remained a surplus of $2,203,622. Outside income, from investments, steamships and telegraphs totalled $8,128,751 from which 3% was paid on the common stock, leaving a balance of $328,751.

The total income from all sources available for the common was equivalent to 10.97% on the $260,000,000 of that issue outstanding. In 1917, 15.90% was reported, in 1916, 16.76%. Indeed not since the stock was put on a 10% in 1911 has the margin above dividend requirements been so small.

Income from outside sources was considerably smaller in 1918 than for several years—over $2,500,000 less than in 1917 and $1,800,000 less than in 1916. This decrease appears to have been largely due to diminished steamship profits. In 1917 steamship earnings amounted to $3,724,720, while last year they dropped to $1,214,869. This may, perhaps, be accounted for by commandeering of vessels, loss by submarines, and taxation.

It is rather interesting to note that at the outbreak of the war the company had 38 steamers, with an aggregate gross tonnage of 342,000 tons on the Atlantic and Pacific. At the end of 1918 it had 28 steamers, with a gross tonnage of 264,000 tons. In addition 6 vessels having a gross tonnage of 80,000 tons are under construction and on their delivery the company will have practically as large a fleet as before the war.

During the year 842,191 acres of agricultural land were sold for $15,375,996. The company now has remaining 6,395,827 acres of lands valued at $105,109,626. The average sale price per acre was $18.25, which would make an average book valuation of $16 per acre appear conservative.

UNITED STATES STEEL.—During the four years war period, 1915–1918 inclusive, United States Steel earned a balance for its $508,302,500 common stock of $119.50, of which $39.75 was distributed in dividends, while $80 was retained either as additional working capital or utilized for property additions and betterments.

At the close of 1918 United States Steel had a balance of net quick assets of $485,354,599. This compares with a working capital balance at the end of 1915 of $272,120,566, a gain in the four years of $213,234,033, or 78.3%.

The remarkable development of the company's working capital position is pictured in the following:—

	1918	1917	1916	1915
Current assets	$883,136,080	$799,997,397	$501,150,873	$336,954,896
Current liabilities	397,781,481	340,351,582	92,942,436	64,834,330
Working capital	485,354,599	459,645,815	408,208,437	272,120,566

With net quick assets of substantially $500,000,000, or better than $95 per share on the common it is believed in conservative banking circles that United States Steel has now reached a point where it can pay to common stockholders the larger part of its profits after taxes, interest and preferred dividends.

Obviously United States Steel, as the largest business organization in the world, is facing in 1919 a period of severe decline in profits. The extraordinary profits of 1916 and 1917 of $48.46 and $39.15 are not likely to be duplicated. And for that matter neither are the tremendous tax payments which have been so great in aggregate as to be almost fantastic. In 1918, for example, United States Steel set up $274,277,835 for war and excess profits taxes, a sum equal to over $53 per share on the common. The 1917 tax provision was $233,465,435, so that in two years the corporation has charged to earnings for taxes a total of $507,743,270, which is within less than $1,000,000 of the par of its $508,302,500 common stock.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 800 April 11, 1919

THE GENERAL MARKET.—The continued strength in the market—so surprising to many people—is, in our opinion, due to two causes: First, the belief in the early signing of the peace treaty. Perhaps the most far-reaching effect of this will be psychological. It should, however, have a very definite concrete effect in tending to establish more normal conditions of international trade. Here, again, let us say, that the tremendous trade balances the last few months are abnormal; therefore, temporary. It is quite essential that we should prepare ourselves not only for a decrease in our foreign balance of trade, but for actual reversal, until imports exceed exports. This may take several years, but it seems bound to come. It has happened so suddenly that, as yet, we can scarcely realize that we are the big creditor nation of the world. The interest payment alone on these credits, which must be made in goods, will be sufficient to change the superficial balance. For scores of years, England prospered with the balance of trade apparently against her; the excess of imports over exports represent chiefly the payment on her foreign investment. United States will, henceforth, permanently occupy a similar position. In short, whereas formerly a balance of imports would have been regarded as a calamity, henceforth it should be considered a mark of prosperity.

Perhaps an even stronger factor than the hope of early peace is the realization that the downward swing of commodity prices has run its course. In two important commodities, wool and hogs, the modification or elimination of Government control has recently actually resulted in higher figures.

It is because of this that the failure of the various branches of Government to agree on prices for steel and coal, though perhaps unfortunate in delaying readjustment, still, in our opinion, is not disastrous. The example of the Government would have been valuable, but it will not be long before these commodities will be taken care of in the open market.

It would be most unfortunate if the stoppage of declines in commodity prices were advantage taken of by labor in an attempt to force further concessions, unfortunate not only for employers but for labor itself. One of the great benefits of the war has been we hope a permanent improvement in the wage scale and condition of living. An attempt to force this beyond present bounds would only defeat its own purpose. Greater and more efficient production is the only answer to high prices. The reason that the United States can today produce more cheaply than England, formerly far under us in the matter of costs, is the greater output per man and generally more efficient operation. As a very successful manufacturer just returned from abroad said to us: "the curse of England is restricted output." The speech of Lloyd George, only a few years ago regarded as a radical labor leader, should be read by all. The axiom must at all times be kept in mind that only successful businesses can pay high wages; an advance in wage which swallows up all profits is suicidal for labor. An excellent concrete example is furnished by Russia, where wages have been fabulously increased and laborers are starving. If we can all keep within bounds, do the most work that is in us, and divide profits equitably—nothing can hinder great prosperity—for, unquestionably, the world must, sooner or later, come to us.

Any comment on the market this week would be incomplete without touching on the remarkable crop situation. The promise of a record-breaking wheat crop should accomplish three things: it will increase our wealth, help us to feed the hungry, and by lowering the cost of living allay discontent.

Finally, as to the market itself. With continued activity predictions of reactions become more and more frequent and, indeed, the huge turnover the last few days, without any noticeable progress except extremely few specialties, would suggest some caution. Yet brokers' accounts would indicate that it is only recently that the public has entered the market to any extent. While admitting the need of caution, we refuse to turn "bearish" until we see a larger loan account. We cannot believe that the market will turn definitely until there has been a decided further uplift in the so-called standard stocks.

THE STUDEBAKER CORPORATION.—The trade position of the Studebaker Corporation furnishes an excellent barometer of the strong position of the automobile industry as a whole.

Studebaker at present has forward orders that will absorb the maximum production capacity of its plants into July. The company has been obliged to refuse delivery of any additional cars until the middle of July.

For the past two weeks production has been running at the rate of 4,200 cars per month, or say 50,000 per annum.

Production during the quarter to March 31 amounted to about 6,500 cars, so that practically speaking Studebaker is lined up to produce about 37,000 cars in the nine months from April 1 to December 31 and

6,500 cars in the first quarter, a total for the year of about 43,000 cars. This output, if attained, would compare with 18,270 autos in the fiscal year to December 31, 1918, and 42,357 in the 1917 year.

Studebaker also possesses a very considerable vehicle business, which in 1918 produced 58,830 horse drawn vehicles. It has been the experience of previous years that the net profits of the vehicle business and the sales of automobile parts produced net sufficient to cover the 7% dividend. History should repeat itself in this respect in 1919. The preferred stock has now been reduced to $10,775,000, calling for an annual dividend of $754,250. Studebaker now has outstanding $15,000,000 7% 10-year notes. Interest on these notes calls for $1,050,000 annually, but inasmuch as these notes permitted the cancellation of $9,525,000 floating debt, the actual new interest bearing capital outstanding during 1919 will be but $5,500,000.

When the armistice was signed Studebaker had practically gone out of the automobile business. Its plants were 80% engaged on war work and by January 1 would have been entirely so.

In four months, therefore, this company has completed its readjustment to peace conditions and has reestablished auto production on the same basis as in 1917.

The big new plant at South Bend, Indiana, designed to produce the 4-cylinder car, will be completed by January 1, 1920. At least it should then start production at one-third its ultimate maximum capacity. A second third should be ready later in 1920.

The prospects, therefore, favor a 1920 output for Studebaker of close to 100,000 cars divided into about 50,000 sixes at the Detroit works and 40,000 to 50,000 fours at the new South Bend plant.

Despite its 1919 load of $5,500,000 unproductive capital the prospects are that Studebaker in 1919 will earn as large a balance for its $30,000,000 common stock as the 10.4% accumulated in 1918. The excess of $1,800,000 to $2,000,000 above the 4% common dividend will go back into the business.

If 1920 production materializes Studebaker should show profits next year of close to $8,000,000, which would leave a surplus of several millions to apply toward retirement of its serial notes.

ATLANTIC GULF & WEST INDIES.—In deciding to invest a portion of its surplus resources in the Mexican oil business, Atlantic Gulf & West Indies has had two chief motives. One has been to find a profitable field for the employment of its treasury resources which are now earning only a nominal return. The other has been a desire to create a new class of transportation which it will control and which when developed will possess the two cardinal virtues of volume and stability.

Atlantic Gulf & West Indies as the financing medium in this transaction will not be required immediately to spend any money for oil drilling or exploitation. The property has developed oil wells, now captive, but capable of a production of 100,000 barrels per day. One of these wells ranks among the four or five largest in Mexico.

Atlantic Gulf will advance the funds for pipe line construction, for pumping stations, for the creation of a terminal and for a deep sea loading plant. The expenditures for these purposes should total between $3,000,000 and $3,500,000 for which Atlantic Gulf will receive the first mortgage bonds of the new corporation. These bonds will be gradually retired from earnings so that in the course of a few years this investment should return to the Gulf treasury.

Atlantic Gulf's largest financial contribution will be for tankers. Until prices for tonnage recede from current levels, it is doubtful if new tankers will be built. Ultimately, however, Atlantic Gulf should own a fleet of tankers capable of conveying 2,500,000 tons of oil freight per annum. Conceivably $10,000,000 will sometime be invested in a tank fleet.

The new proposition can hardly be expected to start before the spring of 1920 and even then the topping plant will not be completed.

Atlantic Gulf can charter such tankers as it requires until construction of its own boats is feasible.

If a topping plant is built it will be located at tide-water and should insure a gasoline recovery that would amply justify its construction.

There are excellent reasons for the belief that the effect upon earnings of this oil investment will be such as to largely insure the stability of the present $10 dividend on the $14,963,000 common. In other words, it does not seem likely that the earnings from the present 250,000 deadweight tons of steamers will ever decline to a point where the net profits will not be sufficient to pay the 5% charge on the $38,500,000 prior obligations, $25,000,000 bonds and $13,500,000 preferred. That would leave in the worst contingency that seems likely to occur the surplus earnings of the new oil property for the approximately $15,000,000 common. And these earnings will, it is believed, be sufficient to make the present $10 dividend appear entirely conservative.

It may also be observed that after making this oil investment Atlantic Gulf will still possess in cash or investments, a fund of $20,000,000 to $25,000,000. The problem of making the wisest use of these funds is clearly a very weighty one.

NORFOLK & WESTERN.—The Norfolk & Western Ry. stands out rather prominently in that all-too-small number of railroads, which in 1918 actually earned a good margin over and above their dividend requirements, and so was not dependent upon the Government guarantee for the maintenance of the 7% common stock payments.

The annual compensation under Federal control has been fixed at $20,634,142. After adding other income of, approximately, $1,000,000 and deducting fixed charges and war taxes, totalling $5,830,000,

there would remain $15,804,000 available for dividends. After allowing for the 4% payment on the $22,992,300 of 4% preferred stock, the balance for the $120,545,400 of common stock would be equivalent to 12.35% on that issue.

Actual operating income for the past year fell somewhat below the guarantee, amounting as it did to $18,256,481, which on the basis of the additions and deductions noted above would leave a balance for the common stock of about 10.4%.

The 1918 year was a record-breaker for nearly every railroad in the country in two respects—gross revenues and operating expenses were larger than ever before. In the case of the Norfolk & Western, gross came to $82,004,034, as against only $43,000,000 three years ago. Operating expenses totalled $61,579,297, as against about $28,000,000 in 1915. Detailed figures for the past three years compare as follows:—

	1918	1917	1916	% Increase
Gross revenue	$82,004,034	$65,910,242	$59,449,982	37%
Maintenance of way	9,524,658	6,176,369	7,671,473	25
Maintenance of equipment	21,273,001	12,051,912	10,342,501	106
Transportation	28,739,290	20,808,290	14,778,085	95
Total expenses	61,579,297	41,161,503	33,508,732	84

In only two years gross increased 37% and expenses 84%. The cost of maintaining equipment and conducting transportation doubled, and by far the greater part of this increase took place in 1918. Ratio of operating expenses to gross income was 75% in 1918, as compared with 62.5% in 1917; 56.2% in 1916, and a ten-year average of about 63%. Expenses, therefore, have increased about as much, relatively, as those on most other roads, and it is only due to the large surplus over dividends which this company earned for a number of years before the Government assumed control, and to the large expansion in gross earnings, that it is now able to show as large a balance for the stock as it does.

The Norfolk & Western is, primarily, a coal road, from 60% to 70% of its freight tonnage being soft coal. This form of business has always been considered very profitable—the coal roads as a class being among the most prosperous in the country. With the return of normal conditions, it is possible that the coal tonnage may decline, but operating expenses may also be expected to show some decrease. There would, therefore, appear to be little or no question regarding the stability of the Norfolk & Western dividend irrespective of the immediate outcome of the present uncertainty in the railroad situation.

UTAH CONSOLIDATED.—So far as the financial results for 1918 are concerned Utah Consolidated showed no exception to the general run of mining companies. Heavy increases in cost, and the marking down of metals at the close of the year, resulted in a severe shrinkage of profit which fell from $2.74 to $.84 per share.

The real gist of the report however, as we look at it, lies not in the earnings for 1918, which, indeed, are no criterion for estimating any mining company's normal earning capacity, but in the statement regarding the company's ore reserves. This, we believe, deserves very careful study.

In the early years of its existence, Utah Consolidated was regarded as one of the prime mining investments, and indeed the company paid very good returns on what must have been the actual cash outlays for the property and its development. A few years later, however, due, no doubt, in large part to the introduction of new standards in the valuation of mining properties and the realization that the Utah Consolidated's ore reserves were limited, the stock suffered a disastrous decline. Indeed, the dividend returns, with the exception of the two high metal years of 1916 and 1917, have been such as largely to justify this shrinkage in value.

For four years, from the close of 1913 the company reported almost uninterrupted declines in the amount of ore reserves, so much so that the inference could quite reasonably be drawn that it had mined out most of its most valuable ore. In 1918, however, there appears to have been a radical reversal in this tendency. Possibly, the purchase of the Yampa mine may have had something to do with it, but whatever the cause, the fact is worthy of decided emphasis.

The following will picture fairly well the decline and recovery in the company's ore reserves:—

Years ended December 31	1913	1917	1918
Tons copper ore reserves	287,038	141,000	277,939
Copper	1.90%	1.76%	2.33%
Gold (ounces)	.05	.05	.048
Silver (ounces)	.7	.65	.78

It will be noted that there was not only a very decided increase in the amount of ore reserves, but also in the grade. The lead ore reserves do not, it is true, show a corresponding increase, but at least as a copper mine the Utah Consolidated seems to have taken on a new lease of life.

Not only as regards the higher grade ore reserves has there been a decided change, but also a significant development of the lower grade ore. Mention of these lower grade reserves was first made in the report

for 1915, when it was stated that there was between 100,000 and 150,000 tons of material of so low grade that it could hardly be classed as ore, but might be profitable during high metal markets. At the close of last year, these lower grade reserves had apparently assumed such importance as to be definitely estimated, and were measured at 526,000 tons, averaging 1.63% copper, with appreciable gold and silver values. The statement that flotation tests are being made on this low grade ore may prove to be decidedly significant.

When it is considered that of the present selling price of about $8 per share, the company has net quick assets amounting to $4.50 per share, the speculative possibilities in this would seem to be decidedly interesting.

THE COAL SITUATION.—There is a general analogy between the situation in soft coal and conditions in the copper and other metal industries.

Early in 1918 the United States Fuel administration set about preparing for a maximum production of bituminous coal. War demand and expectation of a duplication of the severe winter of 1917–1918 dictated such a course. Every emphasis was placed upon production, with the result that at the high point output of soft coal reached a figure of 13,000,000 tons per week.

Then came the armistice to be followed by the mildest winter in many years. The inevitable slowing down in industry after November 11 immediately reduced coal consumption. The result is seen in a current soft coal production of under 7,000,000 tons per week, or at the rate of 360,000,000 tons per annum, compared with actual output of over 600,000,000 tons in 1918.

Soft coal mines have no storage facilities. They produce only so rapidly as they can deliver. Because of the tremendous drop in demand soft coal properties are today operating but two or three days per week. Broadly speaking they are turning out about two and one-half days of capacity output per week.

During the period of pressure output in 1918 many coal consumers stocked up heavily with soft coal. In New England and in industrial sections of the Middle West there are today scores of plants which have eight and even ten months' supply of soft coal on hand. It has been conservatively estimated that there is at present in the hands of consumers a total of at least 100,000,000 tons of bituminous coal, an amount equal to better than three months' consumption for the entire country, based on figures for the last two to three months.

At about the time that an effort was made by the Industrial Board to stabilize steel prices, an attempt was made to agree on a schedule of soft coal prices to prevail during the balance of 1919. The Committee of Soft Coal Producers agreed to name prices for the new coal year, beginning April 1, provided it could be assured that the Federal Government as represented by the Railroad Administration and by the Army and Navy Departments would abide by the new price schedule when once established. The Government, through these three departments, uses close to 40% of the soft coal production of the country. Naturally, whatever price was accepted by these three Government agencies would determine the selling price of the other 60% passing into general consumption.

Unfortunately, the Industrial Board and the Railroad Administration have been as unable to agree on a schedule of soft coal prices as upon a schedule of steel prices. The inevitable result is that the price of soft coal for 1919 is very much up in the air. No contracts are being taken and it is not likely that anything more than a transient day to day business in coal will be attempted by the producers until such time as the Government agencies have given their assent to some definite price program.

While this situation for the minute appears superficially discouraging, it is in a broad way a forward step in the sense that a dilemma once recognized can be cured. All that is required today to stabilize the soft coal situation is a spirit of compromise on the part of conflicting branches of the Government. The coal producers have courageoulsy met the situation by limiting their output to the dimensions of actual demand. In other words, no additional coal surplus is being created and so far as the coal companies themselves are concerned, there is no surplus. The unused coal in the hands of consumers is not likely to reduce demand below the present volume of output of 350,000,000 tons per annum.

Any change in the coal situation from this time forward will, it is believed, be distinctly in the direction of increased demand and enlarged production. Scores of high cost soft coal mines have already been eliminated. Emphasis is being again laid on quality and it is practically certain that when prices are agreed to by Government agencies the quality side of coal production will be recognized in price schedules.

It is worthy of note that a consumption of 350,000,000 tons of soft coal per annum is a smaller output than any year since 1910. In fact, even in 1915 before the war demand in this country had fully gotten under way, the United States consumed over 440,000,000 tons of soft coal.

CUBA CANE SUGAR.—Cuba Cane Sugar had produced through April 7 a total of better than 2,800,000 bags of sugar, an increase of 400,000 bags or over 16% compared with the same period of the 1918 year.

The 1918 year witnessed an output of 3,613,325 bags. If labor and weather conditions continue unchanged for the next six weeks there is no reason to doubt that the company will reach its estimated production of 4,000,000 bags.

An encouraging feature of grinding results to date is the fact that practically all of the 400,000 bag increase is in the eastern end of the island, where cost of production is lower.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 801 April 18, 1919

THE VICTORY LOAN.—The campaign on the Victory Loan—the fifth and last of the Government war loans—opens on Monday. Subscribing to the four previous loans was, primarily, a matter of patriotism. Subscribing to the Victory Loan to the extent of one's ability is, primarily, a matter of sound business sense. While the duty still exists, it is far outweighed by the opportunity.

Our services are, as usual, at the disposal of all.

THE GENERAL MARKET.—The basic fact that those who decry the activity and strength of the last two months as unjustified cannot seem to grasp is that for years to come the whole world must pay tribute to this country. It is because the general rank and file have not yet grasped this fact that this still remains a rich man's market. The public—naturally—are affected by what they see of current business conditions. While such lines as automobile, leather, rubber and sugar, are thriving, what have been generally considered the basic industries such as steel, textiles, coal, copper, etc., are undeniably far below normal. But this can continue to be the case only until it is possible to find the means to carry these products to foreign markets. For it is a startling fact that whereas before the war the high standard that we had set ourselves made it difficult for us to compete in foreign markets, today the United States can under-sell almost all other countries. From an ethical standpoint it is almost a matter of regret that those countries which have borne the brunt of the attack on civilization, which have made the really great sacrifices should, as a result, when their need is the greatest, be unable to compete commercially. Yet such is the economic fact, and it cannot be swept away. No doubt these countries, so far as possible, will quite naturally discourage importations from the United States, and these markets will to some extent be closed to us. But wherever the element of competition is allowed free play it seems that the United States is bound to dominate.

The only thing that can endanger this position is an attempt on the part of labor to force matters, to try to put into play such utterly false theories that shorter hours make for less unemployment when the reverse is actually the fact. So long as both capital and labor are satisfied with just returns, the United States will continue to be the great market-place of the world.

The terms of the Victory Loan have been well received. Marketwise, this will have little effect, except that, as it nears a triumphant conclusion, it may add another favorable influence.

The features of the market are its disregard of bad news, and the pushing up of one issue and then another. If one does not happen to be in the issue that is rising at the moment, he is apt to look askance on the market as a dangerous specialty affair, but the prospect is that if he will wait long enough even the specialty in which he may be interested will have its turn.

PUNTA ALEGRE SUGAR.—Punta Alegre has now produced as much sugar as it did in the entire crop season of 1917–18—something that is true of very few other companies in Cuba.

Up to the first of March the production of sugar in Cuba had been retarded by two causes, very unusual rains and labor strikes. The Punta Alegre properties were outside the zone of the worst labor trouble and escaped any great inconvenience on this score, but the rains had made it impossible to get out the estimated amount of cane at its Punta Alegre plantation. The last few weeks, however, this, as well as its other plantations, has come along very fast. Production from all three properties for some time has been running at the rate of over 30,000 bags per week and with probably six weeks more of grinding and possibly two months, there is every prospect that the company will go over the 600,000 bags originally predicted for this year. If it does, there is every reason to believe that the company will realize the earnings of $25 per share that were predicted.

At the moment the only "fly in the ointment" is the disappointingly slow movement of sugars north. It had been hoped that ocean freight conditions would show a decided improvement over those of last year, but unfortunately this has not been the case and, of course, until the company delivers its sugars in this country, they are not paid for. This, however, means simply a few months delay in getting the sugar north and receiving the money for it.

The situation in sugar is perhaps as interesting as that in any commodity. Sugar and wheat are the only two important raw commodities whose price for the entire production of the current year is guaranteed by the Government—the figure for the Cuban planters being $5\frac{1}{2}$ cents per pound, f. o. b. Cuba, as against 4.60 last year. Next year, undoubtedly, the producers of sugar will have to face an open market. An open market for wheat would undoubtedly mean a very much lower price than the guaranteed figure. The same, however, is not at all true of sugar.

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In the first place, sugar continues as the only important raw commodity that is being produced in less volume the world over than it was before the war. The only section in which there has been any appreciable increase has been in Cuba, and even here, with the inducement of three years of high prices and every effort made, there has not been the increase that one might have expected. The Cuban production for 1915 and 1916 was, approximately, 3,000,000 tons. It was estimated that the next year would see an increase of at least 500,000 tons, but as a matter of fact, the production was just equal to that of the previous year. Last year saw an increase to 3,446,000 tons. It was predicted at the first of the present crop season that the output would run over 4,000,000 tons, but this estimate has since been reduced to 3,600,000 tons. Up to the end of February, the output was just equal to that of last year. Even if the Cuban figure reaches 3,600,000 tons, it is estimated that the total world output would be but 16,000,000 tons, as against over 17,000,000 last year and 18,000,000 before the war.

Other important sugar-raising sections report serious decreases. For instance, the British Indian crop, which was originally estimated at 2,950,000 tons, is now estimated at only 2,300,000. Last year the output from this section was 3,229,000. There have been circulated rather absurdly exaggerated stories of a big over-supply of sugar in Java. The harvesting of the crop here begins in May, and the new crop about to be harvested is estimated at 1,150,000 tons, as against 1,625,000 for the last year.

There has been, as a matter of fact, an extraordinary advance in the quotation for Java sugar. The difficulty in getting these sugars shipped had resulted in a quotation at the close of June, 1918, of 1.78 cents per pound. Since then the market has steadily improved, until now the latest quotation is equivalent to 6.12 cents per pound, f. o. b. Java.

Because we are now able in this country easily to obtain sugar, we still probably do not appreciate that throughout the whole of Europe sugar is still almost unobtainable. On top of this world shortage of the commodity, is the possibility of prohibition in this country, which has always greatly increased the demand for sugar.

Briefly, with the undoubted shortage that now exists, and the improbability of a rapid restoration of the beet sugar industry in Europe which, formerly, supplied about 40% of the total, the prospect is for at least two years more of high prices for this commodity.

FISHER BODY CORPORATION.—The recent pyrotechnics in Fisher Body Corporation's 200,000 shares of common have been based less on earning prospects than on recognition of the peculiar trade position which this company occupied. Fisher Body is a producer with but six or seven customers and a reputation for quality work so unique that it is not obliged to maintain any selling organization.

Among the customers of Fisher Body are the Buick, Cadillac, Chandler, Ford and Studebaker companies. Its work for the Ford Company consists almost entirely in building closed bodies. But the same statement is broadly true of all its work.

A few years ago 90% of Fisher's Body production consisted of bodies for open cars. Only 10% was for closed cars of the sedan and limousine type. Today the character of product is almost exactly reversed. Nearly 90% of its output is for closed cars and as the demand for closed cars is steadily increasing the further speculation of Fisher Body along this line appears inevitable.

The unique position of Fisher Body consists in the fact that it has so few customers that the loss of one or two would prove a serious blow even though new customers were quickly obtained. Obviously the preparation of molds and forms for new types of bodies is something that cannot be accomplished in a minute. In fact, one of the assets of Fisher Body is the fact that it has been so long engaged in making bodies for certain automobile companies that it can manufacture them cheaper than the companies themselves.

The logical solution of this anomalous position would be to have Fisher Body owned jointly by a group of automobile companies using its bodies on their closed cars. General Motors could afford to buy Fisher Body, but it would broaden its selling base if ownership were spread over a group of producing companies rather than confined to a single one.

During the 1918–19 fiscal year Fisher Body was doing so much aeroplane work that its regular automobile output was severely interrupted. The result was a smaller margin of profit. As prospects now stand the company in the fiscal year to end the last of this month will show net profits 20% smaller than in the 1917–18 year. This would forecast a balance for the common of about $10 per share compared with $14.64 in the previous year and $9.51 in the 1916–17 fiscal period.

The company has strengthened its working capital position in the past 12 months and has at present net quick assets of between $95 and $100 per share for the $4,714,000 preferred.

Until further working capital has been accumulated out of earnings it is unlikely that a dividend will be declared on the 200,000 shares of common.

THE BARRETT COMPANY.—As had been generally expected, the Barrett Company, in its fiscal year to December 31 last, showed the largest volume of gross sales and the largest balance of profits for its stocks of any fiscal year in its history. After deduction of all prior charges, including depreciation, Federal taxes, interest and preferred dividends, there remained a surplus for the $16,343,100 common stock of $3,402,661, equal to $20.82 a share on the common, compared with $20.54 per share in the 1917 year.

A favorable feature of operations last year was the fact that the company was able to increase its margin

of profit. In 1918 the volume of sales amounted to $41,339,664, a gain of $7,042,294, or 20.5% over the previous year. The manufacturing profit amounted to 22.1%, compared with 20.8% in 1917.

The Barrett Company set up $2,000,000 for Federal taxes, an increase of $1,580,000 over the $420,000 reserved in 1917. There is no doubt that this $2,000,000 will prove fully ample for the maximum payments which will be called for under the tax law.

At the end of 1918 the Barrett Company had net quick assets of $14,823,569, an increase during the year of $1,851,545, or 15%. This sum is equal to the par of its preferred, with a balance of $42 a share for the common stock. At the close of the 1915 year the Barrett Company had $8,323,288 working capital, so that in the three years there has been a gain in this item of $6,500,241, an increase of nearly 80%.

During 1918 the Barrett Company increased its reserve for depreciation by $1,461,107, or 51.4%. This was in addition to the regular depreciation absorbed as a direct operation expense.

The recent strength in the common stock which has advanced to a high of 131, has been largely due to investment absorption in a market in which the floating supply of stock had already been reduced to a minimum. At existing levels, Barrett Company common is selling somewhat out of line with other 8% issues. It is, however, distinctly not a speculative stock.

The outlook for 1919 earnings favors a somewhat smaller balance of profits for the common than in either 1917 or 1918. This may sound paradoxical, but it must be remembered that while the Barrett Company represents essentially a peace business, its sales have been interfered with very seriously during the period of readjustment. At the present time the company is operating at less than 70% of capacity and maximum operations will hardly be possible until a period of building activity sets in in earnest throughout the country. It is considered probable that the second half of 1919 will produce a very sharp buying demand for the great variety of roofing and road materials which the Barrett Company produces, but the time element has worked against the company and it is hardly possible that even a strong second six months can fully atone for the slack operations necessitated by lessened demand during the first half year.

On the other hand, taking a broader view there is little doubt that 1920 will be a period of active demand for all of Barrett Company's products. Earnings next year should easily establish themselves in new high ground.

There has been a quiet confidence that Barrett common might be considered something more than an 8% stock. In view of the situation thus outlined, it would seem probable that the 8% dividend is the maximum that common stockholders may expect during 1919 at least. 1920 results are obviously so impossible to measure that any assumption of more than 8% for the common is purely an expression of optimism.

NEVADA CONSOLIDATED.—At the close of the year 1912, the Nevada Consolidated reported 38,853,551 tons of ore reserves, averaging 1.67% copper. Six years later, having meantime extracted 20,847,206 tons, the company reports 68,549,644 tons, averaging 1.57% copper. This, it seems to us, is the basic feature of the report, rather than the operating results for the year which, of course, for this, as for all other copper producers, were seriously affected by very abnormal and, therefore, temporary factors. Even during 1918, without any drilling purposely undertaken for development, there were, nevertheless, incidentally developed 2,500,000 tons, as determined by general recalculation. The report intimates pretty definitely that when conditions warrant further development drilling, there will be substantial additions to the reserve tonnages. Indeed, the results at this and adjoining properties the last few years have revealed the existence of deep-lying oxidized ore bodies in the crushed limestone contact that may prove to add decidedly to the value of this property.

As to operations, one feature that should be noted as a change from previous years is that there was charged to operations for stripping of overburden a slightly larger sum than was actually expended. The higher stripping costs and the necessity of carrying a flatter slope made it advisable to increase the charge per ton for this item from 30 cents to 40 cents.

In considering the year's results, it should also be borne in mind that owing to causes well known to all, the company had, at the close of the year, an unusual amount of unsold copper on hand. In accordance with its usual custom, this was carried at 13½ cents per pound, which reduced the average price on which earnings were based to 21 cents, as against the 24½ cents actually received for the copper sold.

This low carrying cost for an unusually large amount of copper should, of course, have a correspondingly favorable effect on the current year's results.

Finally, although the company paid out in dividends and capital distributions more than it reported in net earnings, the close of the year found it in strong condition, with net quick assets equal to $5.70 per share.

CHICAGO, MILWAUKEE & ST. PAUL.—The final settlement of the contract between the Railroad Administration and the Chicago, Milwaukee & St. Paul Ry. does not appear to leave as large a balance for the common stock as was at first calculated. It was originally estimated that the Government guarantee would provide something over 3% for the common and that possible extra allowances might raise this so that dividends might be resumed.

The annual compensation agreed upon is $27,946,771. Out of total claims for extra compensation aggregating more than $2,000,000 only $440,000 was allowed by the Railroad Administration. Other

income accrued during 1918 amounted to $1,158,563 and fixed charges and other deductions totalled $18,413,536, leaving a balance of $10,681,798 applicable to dividends on the preferred and common shares. The full 7% dividend on the $115,845,800 of preferred requires $8,109,206, so that there would remain only $2,572,598 for the common, or the equivalent of 2.19%.

Actual net operating revenue for the 1918 fiscal year was only $3,643,192 which, of course, was nowhere near enough to meet fixed charges. In five out of twelve months there was an operating deficit. If it had not been for big net earnings of July and August, immediately after the rate increases went into effect and before they had been offset by constantly increasing expenses, there would have been a sizable operating deficit for the year. By October deficits had become the rule again. In the five months from October, 1918, to February of this year, a total operating deficit of $1,900,000 was accumulated. It is this same tendency of expenses to more than catch up with the increased revenue obtained by rate advances last summer which is one of the most discouraging features in connection with the railroad situation.

It is rather an interesting commentary on Government control to note in a recently issued statement by the President of the company that of the annual compensation of $27,946,771, the St. Paul collected from the Railroad Administration in 1918 only $6,275,000, It was necessary, therefore, to borrow nearly $14,000 000 in order to meet interest payments and other obligations. Furthermore, the Railroad Administration expended $10,872,711 for improvements to property and allocated to the company 100 locomotives and 3,000 box cars. As soon as practicable some financing will be necessary in order to meet these charges.

Consequently, there would appear to be little or no possibility of the resumption of dividends on St. Paul common stock. As far as the Government guarantee is concerned the preferred dividend might be paid, although in view of the uncertain outlook the advisability of so doing may be open to question.

AMERICAN AGRICULTURAL CHEMICAL.—The continued strength in American Agricultural's $29,276,000 common is a reflection of the emphasis which is rightly placed on the favorable earnings outlook for all fertilizer and food companies.

American Agricultural, in its fiscal year to June 30, 1918, earned 35% on its then $18,430,000 common stock, after interest and preferred dividends, and after all Federal and State taxes for the previous year.

Since then the company has issued at par $9,484,400 additional common, bringing the issued common on the first of the year up to $29,276,000. This has been recently further increased by the conversion of, approximately, $2,000,000 bonds.

Until two years ago, the seasonal nature of the fertilizer business was reflected in the fact that fertilizer companies made little or no profit in the six months from July 1 to December 31; in fact, until 1916, American Agricultural had always showed red ink figures in the first half of its fiscal year. But in 1917, and again in 1918, the first half year showed a substantial balance of net earnings.

The outlook for the June 30, 1919, fiscal year is favorable, and a repetition of the 1918 net earnings may be reasonably expected. Of course, so far as the common stock is concerned, the percentage of profit will be calculated on $9,500,000 additional stock issued for cash, as well as on that issued in exchange for convertible bonds. The latter would, however, be offset, to a considerable extent, by the saving in interest charges.

If the company's expectations are realized, it would mean a balance for the common stock of around $20 per share.

American Agricultural will share with other fertilizer companies in a large export movement for phosphate rock as soon as tonnage is available. Earnings from this source will not be very considerable in 1919, but should gradually expand to a good-sized total, when more normal conditions prevail.

It is, perhaps, not appreciated that the war ended at the worst possible time for the fertilizer companies. In order to have fertilizers ready for spring delivery, it is necessary to accumulate raw materials in the fall. All the fertilizer companies had high cost chemicals in stock in great quantity when the Armistice was signed. A break in the price of these raw materials would have been decidedly serious because it would have created a condition demanding lower prices for complete fertilizers.

The stage has now been reached where it can be positively asserted that the fertilizer companies, as a whole, and the American Agricultural Chemical Co. in particular, are gradually working off their high-priced inventories and it is not expected that the inventories at the end of the fiscal year will be large.

That this result has been attained is equivalent to stating that the demand for fertilizers has been sufficient to enable the companies to work off their fertilizers at prices that it was necessary to sustain, in view of the high price of materials entering into their manufacture.

Lower prices for raw materials this fall should be a help to American Agricultural in that they should automatically reduce the inventory total and should enable the company to pay off at least a portion of its floating debt.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—From a technical market standpoint, the most encouraging event of the week was a new high price on this movement for Steel common. The figure reached this week is the highest since last November. Undoubtedly, this anticipates an agreement between the railroads and industrial boards on the price level for steel. This is one of the acts to which the market has been steadiy looking forward. It would be important not only in the material improvement which it should shortly bring about, but even more for its psychological effect. No doubt it would be shortly followed by an agreement on the price of coal. It is a truism that the railroads, as a group, are much the largest buyers of both steel and coal. The orders that they might be expected to place as soon as the price is settled will be not only of importance in themselves, but would, unquestionably, induce a far more general buying by other consumers who have been waiting for this very thing. It would further have a reflex action on the railroads themselves, in greatly increasing the volume of freight traffic.

Perhaps, after this, the next big event to which the market will direct its attention will be the solution of the railroad problem. This is the biggest piece of work with which the new Congress shortly to be assembled will have to deal. A good many times railroad stocks have seemed to be on the point of breaking out of the rut, only to fall back again. The railroad snarl, intensified by reckless Government conduct, has reached, apparently, such a hopeless pass that it is difficult to see a way out. Yet from a market standpoint, the problem is a simple one. Either capital honestly invested in transportation facilities is entitled to a fair return, or it is not. We believe that the vast majority of fair-minded people believe it is, and if this premise be assumed, the only logical conclusion is that railroad securities are selling too low, as any kind of a fair return on the actual capital would warrant a much higher price. Indeed, there is no possible method of valuation, either a return on capital or physical appraisal, let alone replacement value, that would not result in much higher figures than the present market prices. It is going to be a difficult problem, but we believe not an insuperable one. Any reasonably successful solution should be followed, or rather anticipated, by a very considerable appreciation in railroad shares.

Meantime, the process of readjustment to normal conditions proceeds quietly, but steadily. It is becoming more and more obvious that there will not be a return to pre-war prices before business is again in full swing.

The continued heavy volume of transactions, with a tendency toward higher prices, indicates that the advance of the last two months is not a mere flash in the pan, but constitutes the earlier stages of a major movement. Despite the large advance that has already taken place, many stocks are selling for much less than the sums reinvested in their properties during the war period. Until this mark is again reached we do not believe there is a necessity for sounding a serious note of warning.

CHINO.—The year 1918 was one of peculiar difficulties for a property like the Chino Copper Company. Not only did it have to contend with the factors that made for higher costs generally, but the necessity of having to mine for considerable periods from areas where the ores contained large percentages of carbonates and other oxidized materials, together with the prosecution of construction and alterations in the mill, resulting in some derangement of operating conditions, made for an unusually low percentage of recovery, so that although the company treated somewhat more ore than in the previous year, the final production was 4,000,000 pounds less.

The point is, however, that Chino has now virtually completed a mill of 12,500 tons daily capacity against an actual treatment last year of 2,000 less than this, and with a recovery equal to that of the years previous to 1918, this would mean a production of between 95,000,000 and 100,000,000 pounds—20,000,000 pounds more than it produced last year.

In considering the question of costs attention should be called to the fact that the treatment of the item of taxes is by no means uniform among all the copper companies. Several prominent companies whose reports we have observed in reporting their costs have not made any allowance whatever for excess profits taxes, simply deducting these when payable from the surplus earnings of the previous year. This is of course quite legitimate if thoroughly understood, but it makes a comparison of costs between such companies and those like Chino, which include in costs the total set-up for taxes, quite impossible. Chino's set-up for taxes last year for instance increased 130% over that of the previous year.

In the matter of ore reserves Chino continues to show up very strongly. At the close of 1912 the company reported 90,000,000 tons of ore. Since that time it has extracted 16,766,000 tons. There has been no conscious attempt during this period to increase the ore reserves, but at the close of last year these

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stood at approximately 96,500,000 tons. This is equivalent to 22 years supply with the mill running at a 12,500 ton rate. In the case of this property it is very evident that this is a minimum and not a maximum reserve. The grade of the ore is a small fraction of a per cent. lower than was estimated six years ago, but it is noticeable that the ore treated is of exactly the same grade as the estimated average of the whole ore body.

The company's dividend and capital distributions were equal to its net income, but it spent about $1,500,000 in construction and ore stripping, reducing its net quick assets by this amount. At the close of the year, however, these stood at $7,327,000, or the equivalent of over $8 per share on the stock.

UNITED STATES INDUSTRIAL ALCOHOL.—Within the next two weeks the remarkable new automobile fuel which United States Alcohol perfected and kept as a closely guarded secret during the war will be on the market in a commercial way.

The Alcohol Company has a present capacity to produce 200,000,000 gallons of this fuel per annum. It has received the highest endorsement of the Navy Department as well as most exhaustive tests by the company's own engineers and chemists.

While 200,000,000 gallons is an impressive total it is but a pittance compared with the billions of gallons of gasoline produced in the United States each year. The new fuel to be known as Alco Gas will have 12 to 15% more power than gasoline and be comparatively free from carbon. In other words such carbon as remains in the cylinders will be flakey and easily dislodged and not require burning out as in the case of gasoline produced carbon.

The problem of distribution of this product will not be a burdensome one. The total output is so small a percentage of the gasoline consumption of the country that the new Alco Gas will find a market within a few hundred miles of the Peoria, Baltimore and New York plants of Industrial Alcohol. This fuel will sell at a slight premium of perhaps 10% over gasoline and its market at first will naturally be confined to those desiring a quality fuel.

The broad point is that Industrial Alcohol has created a new business for itself which is practically assured of maximum demand from the day that the new fuel goes on the market. The production of the alcohol fuel will absorb the new plant capacity created during the war, a capacity which otherwise would be standing idle. This plant investment represents an outlay of $21,000,000.

There are good reasons to expect that the profits from production of Alco Gas will be more than ample to meet the $1,920,000 required for 16% dividends on the $12,000,000 common. That would leave the 7% dividend on the $6,000,000 preferred and the Cuban Distilling Company preferred dividend to be earned by the denatured alcohol and chemical departments of its business. Considering the fact that these preferred stocks were earning and paying their full dividends long before the war from denatured alchohol profits alone this does not seem like an extravagant expectation.

As a matter of fact, Industrial Alcohol has three legs to its business stool—denatured alcohol, chemicals and alco gas. The latter is new and spectacular and is susceptible of an enormous expansion. But the chemical branch is also in its infancy, although it has a large and definitely established earning power.

The Industrial Alcohol Company continues to do business with an apparently insufficient working capital. On December 31 last net quick assets were but $1,954,442 compared with $1,306,786 at the end of 1917. From now on working capital should expand. The remarkable thing is that Industrial Alcohol can handle a gross business producing $14,000,000 of net a year after depreciation and still be borrowing but $3,330,000 from the banks. And even this amount is more than balanced by a $3,415,000 increase in Liberty Bonds during the 1918 year.

The recent sale by American International of its Industrial Alcohol holdings had no adverse meaning so far as Alcohol is concerned. American International was criticized for buying into a property having no logical sequence in its general plan. Needing money for the purposes for which it was organized American International sold its Alcohol stock, but this sale must have occurred before the secret of Alco Gas had been divulged.

WESTINGHOUSE ELECTRIC.—During the past two months there has been a material revival in the incoming orders of Westinghouse Electric. Following the signing of the armistice there was a considerable decline in the volume of new business, so that in December and January new bookings were less than half of outgoing shipments. In other words, the company was steadily drawing down its total of unfilled orders. This was not a particularly serious matter, however, for the reason that unfilled orders on January 1 were about $96,000,000, which compares with actual shipments during the March 31, 1918, fiscal year of $95,735,407. Broadly speaking, Westinghouse Electric had at the beginning of the year a total of nearly nine months of unfinished business measured by the rate at which shipments to customers had been made up to January 1.

Ever since January 1 monthly billings of apparatus have been running at the rate of between $9,000,000 and $10,000,000 per month, so that the full fiscal year to March 31 it seems probable that Westinghouse gross sales will record a total of $115,000,000 to $120,000,000, which would be $20,000,000 to $25,000,000 in excess of any previous year in its history.

The net earnings of the March 31 year will also eclipse any former showing. In the eight months to November 30 last Westinghouse Electric earned a balance after interest, but before Federal taxes and

preferred dividends, of $17,450,351. This was at the rate of over $26,000,000 per annum. Assuming a Federal tax of $10,000,000 there would remain a balance for the preferred and the $70,813,950 common of more than $16,000,000 or better than 22%, or $11 per share. These earnings would compare with $10.67 per share in the 1918 year and $12.56 per share in the 1917 fiscal period. The estimate of $10,000,000 reserve for Federal taxes compared with an actual reservation in the 1917–18 year of less than $3,000,000. One of the little appreciated sides of Westinghouse operations is the fact that since 1914 its plant capacity has been increased 100% and its working capital by an even greater amount. On March 31, 1914, Westinghouse Electric had net quick assets of $29,384,971. The November 30 balance of quick assets over quick liabilities was in excess of $69,000,000 and on March 31 must have been between $72,000,000 and $73,000,000. On the assumption of a working capital of $72,000,000 this would mean a gain in five years of $43,000,000 or 148%.

Westinghouse Electric has been steadily whittling down its floating debt from the high points of $31,000,000 on March 31, 1918. At present its bank debt totals slightly less than $20,000,000 and this figure includes the $15,000,000 one-year 6% notes maturing February 1, 1920. Another 12 months will undoubtedly see the company with much more normal inventories and with its debt situation no longer a consequential factor.

It is, of course, obvious that in doubling its plant system and increasing working capital 150% in five years Westinghouse Company has been obliged to put the emphasis upon the getting of business results rather than paying large dividends to common stockholders. In point of fact, out of over 80% earned on the common in the five years to March 31 last only 31% has been paid in dividends. The balance has gone back into property.

With a more normal treasury position Westinghouse should be approaching the point when it can return to common stockholders something better than 7% or $3.50 per share.

Like General Electric, the Westinghouse people have been keenly alive to the export possibilities of the electrical industry. The recent sale of its holdings in the British Westinghouse Company was part of a broad plan to be prepared for the export demand which seems reasonably assured. There is believed to be no sound reason why in a few years time General Electric and Westinghouse should not divide an export business of $50,000,000.

PERE MARQUETTE.—Since its reorganization about two years ago, the Pere Marquette has been able to make a very creditable showing in spite of the adverse conditions with which the railroads in general have had to contend.

The present company has only $36,325,000 of bonds outstanding as against approximately $77,000,000 for the predecessor corporation just before the reorganization. The stock capitalization consists of $11,200,000 of 5% cumulative prior preferred stock, $12,429,000 of preferred, and $45,046,000 common. Payments have been made on the prior preferred since it has been issued. No payments have so far been made on the preferred, which carries a 5% dividend cumulative after January 1, 1919. Earnings, however, would seem to warrant the inauguration of dividends on this issue, and it may be that something will be done along that line this year.

In the nine months from April 1, when the present company took over the Pere Marquette property, to December 31, 1917, the balance available for dividends was equivalent to 23.61% on the prior preferred, 16.77% on the preferred, and 3.25% on the common.

Beginning with 1918, the Government assumed the operation of the property. The Government guarantee, based on the average net income for the three years ended June 30, 1917, is figured at $3,748,196. After all deductions, the balance available for the different issues of stock was $1,894,124. Allowing for the 5% dividends on the prior preferred, there would remain 10.73% for the preferred and 1.58% for the common.

Actual net operating income from operations during 1918 was $3,851,484, and the balance available for dividends was $1,997,412. These figures are in each case $103,288 greater than those guaranteed by the Government, so that on its own operations, the company earned slightly larger percentages for its stock than are guaranteed.

ILLINOIS CENTRAL.—The annual report of this company for the year ended December 31, 1918, contains merely a statement of income based on the Government guarantee and not one based on actual operations.

According to the figures given the Illinois Central is entitled to a standard compensation of $16,282,373, which after adding other income and deducting charges left a balance of $10,782,823, or 10.02% for the $109,284,392 of common stock outstanding. It should be noted, however, that there was a net charge of $758,887 made to income on account of expenses accrued prior to January 1, 1918. Disregarding this item, the net balance of the common stock, based on the standard return was 10.56%. It is also important to observe that the income from interest and dividends for 1918 was $3,172,419 larger than in 1917. It amounted to $6,513,641, as against only $3,341,222 in 1917 and approximately $9,000,000 in 1916. The big decline in revenue from this source in 1917 was due chiefly to the failure of two of the company's subsidiaries to pay interest and dividends on securities held in its treasury. Apparently payments were renewed by these subsidiaries last year. However, if other income in 1918 had been the same as in 1917, the guaranteed percentage on the common stock would have been only about 7.50%.

The Illinois Central is also in the enviable position of having actually earned on its own operations more than enough to pay the 7% dividends on its common stock. Actual net operating income for 1918 came to $12,907,466. Making the same additions and deductions for other income and fixed charges as contained in the official report, there would remain a final balance of about $8,300,000, which was actually earned for the stock. This is equivalent to about 7.55%.

Recent monthly reports of earnings do not, however, hold out much hope that dividends will be earned from operations in 1919 unless there is a decided change for the better accomplished either through a decided reduction in expenses or an increase in rates. The two months—January and February, 1919—showed a net revenue of only $117,522, as compared with $1,050,760 in the same period last year and this in spite of an increase of nearly $3,000,000 in gross.

GENERAL MOTORS.—General Motors in 1918 was passing through a year of tremendous expansion. This is the cardinal outstanding fact which is emphasized by even the most casual examination of the 1918 annual statement.

For instance, during 1919 the company issued $99,676,100 additional 6% debenture and common stock. On December 31, 1917, General Motors had outstanding $96,550,100 preferred and common. The outstanding stock at the close of last year was $196,226,200.

This huge increase in capitalization was caused by four major transactions. This may be better understood by examination of the following:—

	Debenture	Common
Issued for Chevrolet assets	——	$28,268,400
Issued for United Motors assets	$29,869,200	9,956,400
Issued for cash	——	24,000,000
Issued for Chevrolet Motors of Canada, McLaughlin Carriage Co., Ltd.	——	4,900,000
Total	$29,869,200	$67,124,800

In other words, $96,994,000, or 97%, out of a total increase in capitalization of $99,676,000, was due to these four principal expansion moves.

From an operating standpoint 1918 was a year of transition and interruption. The conditions of automobile production steadily became more difficult as 1918 progressed. A wide variety of war work was handled and at a much smaller margin of profit than would have accrued from a similar effort in making cars.

The result was that manufacturing profits remained practically stationary, the contrast being $34,634,854 in 1917 and $35,504,576 in 1918, so that broadly speaking increased gross produced little or no additional net.

Unfortunately, General Motors has failed to disclose the amount of its war tax. There was a heavy charge of $20,113,548 for Federal taxes and extraordinary expenditures. This is 65% of the total net profits before taxes of $35,504,576. It is understood that the war tax accounts for less than two-thirds of this very heavy charge. In fact, broadly speaking, some $5,000,000 to $7,000,000 was charged out for extraordinary expenditures. This was in addition to $4,616,344 charged to depreciation before showing the $35,504,576 net. The 1917 tax and extraordinary expenditure item was but $6,901,889. It seems fair to assume that larger taxes could account for only a portion of this $13,211,659 increase. And this increase is equal to $9 per share on the $147,379,900 common outstanding on December 31 last.

The 1918 statement creates an unfavorable impression in the sense that the $12,905,063 balance for the common outstanding December 31 was but $8.76 per share, or $3.24 less than the current $12 dividend rate.

There is an answer to this situation in the fact that General Motors expanded so rapidly last year that only a portion of earnings of such companies as Chevrolet, United Motors, Scripps Booth and Harrison Radiator counted in 1918 results. Proof of this is seen in the fact that net profits before Federal taxes of all companies now comprising the General Motors system in 1918 were $45,541,726, or $10,037,150 more than the profit of $35,504,576 actually shown. This difference of $10,037,150 would equal $7 per share on the common outstanding on December 31 last.

General Motors has, of course, passed through a physical expansion which has kept pace with its growth in financial structure.

In automobile production alone General Motors has a present productive capacity of 600,000 cars per annum and expects to attain an output of 400,000 cars this year, a fairly creditable showing considering the transition from war to a peace basis. The actual production of cars, trucks and tractors in 1918 was 246,834 and in 1916 was only 132,088 cars. On the basis of a present capacity of 600,000 cars and trucks General Motors will have expanded its production four-fold in three years.

The margin of profit on the actual capital invested has so far been very large for the well-managed automobile concerns. According to its balance sheet, General Motors common at the close of last year had a net asset value of $100 per share. With a large increase in output by this and other companies it will be interesting to see to what extent this margin of profit can be maintained.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—For the first time since the market started up in the latter part of February it has been called on to withstand a real test of its stability. While every one realized that steel earnings have been declining sharply, few probably anticipated the elimination of all dividends on the stock of the U. S. Steel Corporation. Such a statement and dividend action bring home the fact that industrial prosperity is very unevenly distributed. If the advance in various classes of stocks means anything, however, it means that this country is in for a period of great industrial activity. So far it has reached a comparatively few lines. Eventually, it seems inevitable that it will spread to include practically all.

Those who have been predicting depression have had, it must be admitted, some facts to justify their opinion; labor unrest, high costs, destruction of wealth, under ordinary conditions would tend toward inactivity, if not depression, but those who hold this view have failed to take into account other and, we believe, more important influences that tend in reverse direction, viz., toward inflation.

There are five principal items that come to mind in respect to which the position of this country has been absolutely reversed by causes arising from the war and which give us such a tremendous advantage over the rest of the world as should make for quite an extended period of prosperity.

First is the fact that this country has changed from a debtor to the greatest creditor nation. Instead of an invisible balance of trade against us, generally estimated around $300,000,000 annually, the United States has now such enormous credits that the interest alone, not to mention the principal, cannot be met in gold, but must be paid in goods or services.

Secondly, this country will continue as the market-place of the world. We found out during the war what this meant. It was natural to suppose that, with the ending of the war, we would revert to the position of a comparatively high-priced market, but such is not the case. It is an astounding fact that, owing to various causes, we can now undersell the rest of the world. Formerly, when those in the non-manufacturing sections of the world wanted shoes or cotton cloth or steel rails, they went to England or Europe. Today they come to us. Hence, in spite of a tendency to restrict our market in Europe, the demand for our exports must continue large.

Third, is our great accumulation of gold and our large proportion of gold reserves in comparison with outstanding notes. Our gold equals that of any other three nations, and while our note issue has been much increased, it still has a proportionately large reserve behind it. In other words, our purchasing medium has not been so much inflated.

Fourth, for the first time since the Civil War this country is in a fair way to have a respectable merchant marine of its own.

Fifth, the United States is the only country with a surplus supply of foodstuffs, so sadly needed everywhere.

Now, these are basic factors and we do not believe that their influence has been, by any means, fully measured even by the rise of the last two months. Of course, one must not close one's eyes to the fact that many stocks have had a large advance. The first stage of the rise is, perhaps, over and a level has been reached where one must expect more frequent and more severe reactions, but there is no doubt that the public are getting into this market, that the wave of speculation and inflation is spreading and we do not believe it will run its course until many stocks that have not yet felt its influence are selling a good deal higher.

COTTON MARKET.—On Wednesday of this week the old style contract expired. Commitments had been reduced to very small figures and trading was extremely limited.

That old contract which would allow the delivery of 21 grades on the basis of midling has now been supplanted by the present contract which was a rider amendment to the Wheat Bill and called for a much higher standard of grade, all to be Government inspected.

The present contract conforms much more closely to the Southern markets than the old contract and will be of inestimable value to the buyers and sellers of the actual commodity.

The sharp reaction of nearly one cent a pound in Futures strengthened the technical position of the market considerably. The weather report was bullish, rains being predicted over many sections of the cotton belt, especially in some sections where rain was urgently needed.

While fluctuations at these prices are likely to be violent, we expect to see a general hardening of prices all around.

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COPPER REPORTS.—1918 was such an abnormal year for the producers of copper that the financial results are of practically no value as affording any criterion of their earning capacity under normal conditions, while their method of treating the various items—taxes, depreciation, depletion, etc.—vary so widely from one company to another that any general comparison between them is practically out of the question. The financial condition of the companies at the close of the year, and their standing in the matter of ore reserves would seem to be the principal items on which emphasis should be placed.

Cerro de Pasco's annual report contains probably the least amount of information of that of any copper company whose stock is listed on the New York Stock Exchange. A report that does not even give the output of the metals is obviously of little value to the shareholders. The income account, showing a profit for the year of $500,000, as compared with $5,500,000 for the previous year must obviously be taken with some allowance. The item of ore depletion, amounting to $5,500,000 is far out of proportion when compared with the allowance of any other company.

The Cerro is understood to have produced last year about 72,000,000 pounds. Before deducting the item of depletion, it would appear that its profits was a little over 8 cents per pound, indicating an operating expense before depletion of about 16 cents.

Perhaps the most significant item of the report is the statement of net quick assets, which at the close of the year amounted to $13,000,000, a gain of $2,000,000 for the year. The report contains no information regarding the ore situation; nothing, indeed, except the statement that it has become necessary either to re-construct the present smelter, or erect an entirely new one.

Miami's results for 1918 were entirely creditable, especially considering conditions. The output of 58,407,000 pounds exceeded the previous record, that for 1916, by nearly 5,000,000 pounds. .Its cost of just under 15 cents per pound, excluding depreciation, is among the lowest that we have noticed. The inclusion of the depreciation item would have added about 1 cents per pound more.

The mill extraction of 71% is quite up to the average for this type of property but, perhaps, no more than should have been accomplished, considering the excellent grade of ore treated. The profit before depletion was equal to $7 per share; after deducting this item the balance was equivalent to $4. Net quick assets at the close of the year, including an item of sundry investments, which showed an increase from a little under $2,000,000 to over $5,000,000, amounted to a little over $7,000,000, or not far from $10 per share.

The most interesting study as regards Miami is the ore situation. At the close of 1915, the company reported 18,140,000 tons of ore, running 2.4%. In the last three years it has mined 6,615,000 tons, running a trifle over 2%. Evidently, the company has been treating, exclusively, its better grade of ore. There has been, apparently, a development of about 1,000,000 tons of this grade in these three years, as the deduction of the tonnage mined from that at the close of 1915 would leave 11,500,000, whereas the actual reported tonnage at the close of 1918 was 12,500,000 tons. At the rate treated during 1918, however, this is but a little over six years' supply.

Meantime, the lower grade tonnage has been increased from 17,000,000 to 36,000,000 tons, though the estimated grade has fallen from 1.21% to 1.06, and there is also a tonnage of 6,000,000 tons of mixed sulphide and oxide ore, running 2%.

Unless the Miami can make a very high recovery from its low grade ore, and at a smaller cost per ton, it would hardly seem as though this could be regarded as a commercial asset. A recovery of even 80% on 1% ore would yield 16 pounds of copper to the ton; 15 cents per pound for this copper would make the gross value $2.40 per ton, whereas its total expense in 1916 on the high-grade ore treated, including all items, was $2.80.

Presumably, however, experiments in the treating of this lower grade ore are meeting with success, as the report speaks optimistically of the possibilities of profit from the handling of both the oxidized and low-grade ore.

MOHAWK.—Two facts in the Mohawk report stand out that are worthy of comment. First, that the actual operating cost of production for the year was but a little over 11 cents per pound.

To be sure, by the time that all expenses were included the final cost amounted to about 17½ cents, the difference being accounted for by taxes, depletion and depreciation.

Nevertheless, the figure of 11 cents as the operating cost is the really essential one, and under the circumstances is quite remarkable.

The second feature is the very high yield of the rock—23.73 pounds per ton. It is, perhaps, as yet, scarcely appreciated that with only one exception, the Mohawk's rock is now the richest of any treated in the Lake Superior District from any lode, richer even than the Calumet & Hecla conglomerate.

The statement of the probable unmined tonnage is an interesting and rather unusual feature for this type of company. The remaining unmined copper would, apparently, amount to about 16 years full rate of production.

Finally, it is to be noted, that this company has net quick assets, of which only a very small part are in copper, amounting to $22 per share.

UNITED ALLOY STEEL.—United Alloy Steel is an interesting illustration of how rapidly the profits of a smaller corporation will increase when it has returned to its normal lines of production.

United Alloy Steel is emphatically a specialty steel company. It is the largest and most important producer in the country of high grade alloy steels such as are specially required in the production of automobiles.

But war interrupted its 1918 output most drastically with the result that 70% of production represented common grades of steel and only 30% its specialty—alloy steels.

The result was a drop in the manufacturing profit from the $6,610,209 reached in 1917 to $4,736,301 in the 12 months to December 31 last. The balance for dividends on the 525,000 shares of stock last year was $2,635,256, or $5.02 per share, compared with $8.54 per share in 1917 and $6.18 in 1916. In 1917, when the largest net for dividends was attained the percentage of output was 30% common steel and 70% alloy steels. The late year, therefore, completely reversed these percentages.

In the two months of January and February, however, Alloy Steel was operating on a basis of 80 to 90% alloy steel and this in turn was accompanied by a most satisfactory recovery in net profits which for the two months amounted to a balance for the 525,000 shares of stock of $636,515, a gain of $275,512, or 76.3% over the same two months of 1918. Could this percentage of gain be maintained for all of 1919 it would forecast an earning power for the stock of over $8.75 per share, based on a tax setup of $600,000 compared with $800,000 last year.

In January and February Alloy Steel's gross sales increased $768,585, or 15.7%, so that the 76.3% gain in net was clearly made possible only by resumption of practically capacity output of alloy steels.

United Alloy Steel had on December 31 last net quick asets of $7,576,800 and on February 28 this total had expanded slightly to $7,896,786, a sum equal to $15.04 per share.

At the high point last October the company was borrowing nearly $1,800,000, but loans are now down to about $500,000, a reduction which, coupled with the substantial recovery in earnings, holds out the promise of ability to continue the present $4 dividend without difficulty. The company has a rather heavy capitalization which is perhaps the chief criticism that can be leveled against its shares. The present asset value is a little less than $50 according to balance sheet figures, but this value is made upon a conservative basis. Moreover, in 1919 the company should be able to add $3 to $4 to book value of its shares.

AMERICAN HIDE & LEATHER.—The advance in American Hide & Leather to a figure 15 points higher than it had ever previously sold unquestionably foreshadows some definite action to be taken in connection with the accumulated dividends on this issue.

The rather large inventories that the leather companies have been carrying, combined with their small pre-war earnings, had led a good many to believe that with the establishment of an open market there would be danger of a sharp marking down of inventories and a reversion to the pre-war level of earnings. This point of view is proving to have been incorrect. On the contrary, the hide situation is one of the strongest of that of any commodity, and conditions throughout the world as affecting this seem to warrant the expectation of a higher level of earnings for several years to come.

Earnings of American Hide & Leather in the March quarter got back very nearly to the level attained in the September three months. The slump in profits which was so plainly in evidence in the December quarter is now very clearly corrected. The course of earnings by quarters since the beginning of the new fiscal year on July 1st is shown in the following:

	Net Earnings	Balance for Pfd.	% on Pfd.
March quarter	$780,202	$614,827	4.91%
December quarter	498,617	333,242	2.66
September quarter	814,204	648,829	4.99
Total,	$2,093,023	$1,596,898	12.56

During each month of the March quarter there was a progressive improvement both in gross and net. For instance, in January, gross sales were running at the rate of $29,000,000, but in February the rate had advanced to fully $32,000,000.

American Hide & Leather will in fact in its June 30th fiscal year probably overtop the record of 1918 when the gross overturn reached $29,104,428. The balance for the $12,500,000 preferred in the hands of the public in the 1918 fiscal year was 19.08%. In nine months to March 31, American Hide & Leather had earned 12.56% for its preferred, so that profits of 6.5% in the June quarter would be needed to equal last year's showing which was the best in the company's history.

American Hide & Leather is steadily improving its plant condition. This year a very substantial sum is going into the Chicago tanneries which should materially increase their capacity and efficiency. The present plan is to concentrate a larger production in Chicago which is felt to be a natural upper leather producing center.

American Hide & Leather is still borrowing some money from the banks, but it is more than covered by its $1,250,000 of Liberty bonds.

On March 31, the outstanding bonds in the hands of the public had declined to $2,706,000 and by

June 30 should be down to $2,500,000. By the time these bonds mature on September 1 they will not greatly exceed $2,400,000.

As of March 31, American Hide had net quick assets of $14,722,753, a sum equal to $96 per share on the preferred after setting up provision for the bonds at par.

Including the year to end with next June, American Hide & Leather will show average net earnings, after interest charges, of approximately $1,800,000 per annum for the last five years. To this must be added about $650,000 which the company will save with the maturing and refunding of the small remaining issue of bonds, making a total of over $2,400,000 a year as the average for the last five years shortly applicable to the dividends on the preferred. Seven per cent. dividends on the present issue of $13,000,000 preferred call for $910,000 per annum. That is to say, the company in the liquidation of the 117% of back dividends could give additional preferred stock carrying 7 per cent. dividends for the full amount, and the average earnings of the last five years would still be sufficient to support the dividend charges on the total, with a balance of $600,000 to spare.

Incidentally, such a balance would be equal to over $5 per share on the common stock.

LEHIGH VALLEY.—The Lehigh Valley R. R. reports a balance of 10.88% earned for its common stock during the 1918 fiscal year. This compares with 11.82% earned in 1917 and is the smallest percentage reported in more than ten years, with the exception of 1914. Since 1912 this stock, which has a par value of $50, has been on a 10%, or $5 annual dividend basis.

These earnings for last year are based on the Government compensation of $11,321,233 for use of the road. Actual net operating income amounted to only $6,821,131, so that on its own operations the Lehigh Valley would have shown a balance of a little less than 7.5%—not sufficient to cover the dividend requirements.

The Lehigh Valley is really in rather a unique position. The Government guarantee alone is not enough to cover charges and 10% dividend requirements. To meet the latter the road is dependent on other income which has been a widely fluctuating item from year to year. The greater part of the other income is derived from dividends on the stock of the Lehigh Valley Coal Company.

In 1918 the total other income came to $3,026,425. Of this $2,546,778 was derived from dividends on stocks owned, of which the Lehigh Valley Coal Company supplied $2,029,650. Thus the Coal Company was responsible for about 66% of the Railroad Company's other income and 80% of its dividend income. It is interesting, therefore, to note the changes in the dividend income during the past few years:—

	Income from Dividends on Stocks Owned
1918	$2,546,778
1917	3,344,546
1916	903,313
1915	712,999
1914	1,214,034

The big increase in dividend income in 1917 and 1918 is, of course, largely due to the big demand and high prices prevailing for anthracite coal. It is also true that up to 1917 the Coal Company was turning its earnings back into property. Nevertheless, the total net earnings of the coal subsidiary for the eight years from 1909 to 1916 inclusive averaged only $1,300,000, as compared with $2,397,776 and $2,029,650 paid in dividends in 1917 and 1918 respectively.

It sould seem, therefore, since even on the basis of the Government guarantee the Lehigh Valley earned a margin of only $532,000 above dividend requirements, that the 10% dividend was dependent on the maintenance of coal earnings materially above the pre-war level. In view of this fact, the statement by the President of the company that the coal prospects for 1919 are not encouraging, due to the mild winter and decreased demand for coal on account of cessation of many war activities is of considerable significance.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 804 May 9, 1919

THE GENERAL MARKET.—While the market has presented the same general aspect as for weeks past—great activity with most of the advances still in a few specialties—yet to the careful observer there is one respect and a very welcome one in which there has been some change. We allude to the gradual firming up of the railroad shares. This has taken place so quietly as not to attract much attention—yet a comparison with a few weeks ago will show quite an appreciable advance. Here again the market shows greater foresight than any individual could be expected to display. The present situation as to railroads is the darkest that it has been for a good many years. The problem can be stated in very simple terms: two years ago American railroad payroll was 1,800 million dollars; this year it will be 2,800 million, an advance of 50%. Meantime, the tons hauled one mile fell from $37\frac{3}{4}$ billion in March, 1918, to 29 billion in March, 1919. This is a decrease in traffic of nearly 25%, so that, as against a deficit for the Government on its rental payment to the railroads of $226,000,000 the whole of last year, there is already a deficit of $192,000,000 for the first quarter of this year.

It should be observed, however, that while the problem is a difficult one, it does not differ in kind from what has been presented before; that is, before the war wage increases had been granted that seemed overwhelming, but gradual increases in traffic, combined with heavier engines and cars, larger car loads, in a word, much more efficient railroading, gradually overcame the handicap. In this case, the handicap imposed by unprecedented wage increases is too great to be quickly overcome by these methods.

Congress has been called to assemble on May 19 and this, presumably, will be one of the first problems to be taken up, and its ultimate solution is what the market is now beginning to discount. We trust Congress will keep in mind that it is not only essential that the railroads should be made thoroughly solvent and self-supporting, but that the railroad business should be put on a basis attractive to the investment of capital; something that has not been true for the last ten years. There is no doubt that too large a proportion of available capital has been going into industrials and too little into railroads, making for an uneven development.

It must occur to the most superficial thinker that the principal reason that the railroads have not attracted capital is that they have been over-legislated and over-regulated. In short, they have suffered from the blight of too much Government, from which industrial propositions have been comparatively free.

The next test of the market will come with the signing of the Peace treaty. As to this, there are two schools of thought; perhaps almost equally logical: One that this will be the signal for industrial revival and expansion that cannot help but stimulate the market; the other that the market has been discounting the event and with its consummation would suffer a relapse.

Paradoxical as it may seem, it is not at all impossible that both may be right; at least, to a limited extent. No doubt a good many stocks have now scored most of the advance that could be expected on their prospects for sometime to come; on the other hand, it is difficult to believe that this movement will come to an end until others, which have lagged far behind, have also discounted a revival of their business.

The public is beginning to come in and to some extent the position of the market, technically, is weakened. One cannot afford to be so indiscrimately bullish as three months ago, but the market does not collapse with the entrance of the public, but with its exit. In our opinion it will be a good while yet before this takes place.

CUBAN PORTLAND CEMENT.—Cuban Portland Cement reports net earnings, after all charges, including interest, of $10,301 for January and of $19,855 for February. The latter is the best month that the company has as yet reported.

It will be noticed that this is at the rate of, approximately, $2.40 per share on the 100,000 shares that are outstanding. This is with half of the mill in operation.

The additional crushing machinery that was ordered a long time ago and was recently delivered, is now in process of erection, and the entire mill should be in operation by the first of July. With overhead expenses applied to a production of 2,000 barrels per day, instead of about half that amount, it would seem reasonable to suppose that the company will increase its margin of profit per barrel even though it may have to go somewhat further afield for its market.

In short, after the first of July, the net earnings should be somewhat more than double what they have been with the mill running at half capacity.

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ADVANCE-RUMELY.—Since an early peace first became apparent last fall, the agricultural machinery and implement stocks have enjoyed considerable popularity as peace issues. The shares of the Advance-Rumely Company have already benefitted considerably from this condition, and indeed the record of the company, particularly during the past year, would offer some reason for it.

This corporation, it will be remembered, was organized at the close of 1915, as the successor in reorganization to the M. Rumely Company, which had a rather unfortunate history. The new company had a capitalization of $3,500,000 ten-year 6% debenture bonds, $12,500,000 of 6% preferred stock, cumulative after January 1, 1919, and $13,750,000 of common stock. In the first three years of its existence, the company's earnings have been as follows:—

	1918	1917	1916
Total income	$3,393,704	$2,419,226	$2,178,321
Net after all deductions	1,188,929	550,557	283,478
Per cent. on preferred stock	9.51%	4.40%	2.27%
Per cent. on common stock	3.19%	——	——

During the same period there have been some rather noteworthy changes in the balance sheet. The debenture bonds outstanding have been reduced to $1,545,000; good-will has been written down from $14,172,305 to $13,000,000; and profit and loss surplus now stands at $2,022,964, as against nothing three years ago.

As of December 31, 1918, net working capital amounted to $14,148,713, or just a little more than enough to pay off the bonds and preferred stock at par, leaving the plants and equipment carried on the books at $4,120,842 for the common stock. This would be equivalent to about $30 per share on the junior issue, taking no account whatever of the good-will item.

Dividends were inaugurated on the preferred stock at the rate of 6% annually last month. In view of the strong financial position of the company, and the prospects of a big demand at good prices for agricultural machinery and equipment for some time to come, there would appear to be little reason to doubt the ability of the company to maintain this dividend.

GENERAL ELECTRIC.—While superficially the General Electric statement for the fiscal year to December 31, 1918, impresses the casual reader as a period of rather modest results, it does not require any very prolonged examination to discover in the company's trade and financial position the justification for the exceedingly high regard in which its stock is held in conservative banking circles.

For instance, it is interesting to note that during the four years, 1915, 1916, 1917 and 1918, General Electric expended upon additional lands, buildings and machinery and other equipment, a total of $57,228,214, but of this relatively huge sum only $12,976,823 has been taken up as an increase in book value of plant. The balance of $44,251,391 has been charged off the books or set up as plant reserve.

In other words, 77% of the heavy property expenditures necessitated by the abnomral demands of war times, has been deliberately written down, so that on December 31 last, General Electric was carrying its plant account at $44,712,619, compared with $30,560,317 at the beginning of the 1915 year.

In order to fulfil Government requirements, General Electric in 1917 and 1918 was forced into an abnormal plant expenditure. This, combined with the excessive cost of new construction, has naturally created in the minds of the directors a desire to fully depreciate the cost of new construction. There is no question, however, but that a charge off in 1918 of $16,492,252 out of a total expenditure of $21,593,997 fully meets the test of conservatism. The following shows in detail the amount expended in new plant, the increase in book value of the plant and the amount of new construction charged off year by year during each of the past four years:—

	Expended	Increase Book Value Plant	Charged Off or Added to Reserves
1918	$21,593,997	$5,101,744	$16,492,252
1917	22,320,895	9,033,645	13,287,249
1916	8,828,254	341,432	8,486,822
1915	4,485,068	*1,500,000	5,985,068
Total	$57,228,214	$12,976,821	$44,251,391

*Decrease.

It is, of course, obvious that with an outlay of close to $44,000,000 on new plant during the past two years General Electric has now expanded physically to a point where it can lay back for a year or two and put only nominal amounts of money into new plant. In other words, the requirements of cash for property account are likely to run at modest figures for the next 12 to 24 months.

Whatever charge of mediocrity may attach to the 1919 statement of General Electric undoubtedly centers around the fact that in the late year, despite an increase of $19,888,960, or 10.09% in gross sales the net manufacturnig profits of $28,375,755 were actually $628,784, or about 2½% less than the previous year. Undoubtedly the reasons for the apparent failure to derive any benefit from an increase of nearly

$20,000,000 in gross sales, may be found in the allusions in the text of the report to inventory, "adjustments in recognition of the decrease in market prices," in the revaluation of accounts and securities, writing off of all patent charges and the extremely heavy depreciation of plant accounts, all of which were added to the cost of sales billed.

It may be noted that the company increased its charge against earnings for taxes from $5,500,000 in 1917 to $13,500,000, an increase of $8,000,000, a sum equal to about 7% on the $115,874,000 capital stock. Largely because of this very heavy increase in the reserve for Federal and excess profits taxes, the balance for dividends amounted to 14.7%, compared with 26.5% in the previous year. However, it is to be observed that General Electric in 1918 issued $14,362,300 additional stock, of which $10,061,218 was offered to stockholders in January at par, while the balance was paid in the form of two semi-annual stock dividends. As a result share profits for 1918 have to be calculated on $115,874,800 stock, compared with $101,512,500 at the close of 1917.

In the 1918 year for the first time in its history, General Electric gross sales crossed the $200,000,000 mark with a total of $216,000,000. The company on December 31 had $80,000,000 of unfilled orders, after a cancellation of some $30,000,000 of Government business. This amounts to about six months' of unfilled orders on the present commercial basis, which is reasonably satisfactory and should insure another year of satisfactory net earnings in 1919. In fact, during the March quarter there was a progressive improvement in the rate of incoming business, so that new orders are now coming in at an annual rate of better than $160,000,000. At the moment it looks as if General Electric this year should be able to ship out at least $175,000,000 of apparatus and supplies.

Aside from the conservatism with which General Electric has handled its property account, perhaps the most imperessive feature of its war record has been the steady gain in working capital which on December 31 last stood at $126,729,626, an increase of $52,554,072 during the three years from December 31, 1915, a gain of nearly 72%. The details of working capital are shown in the following:—

	1918	1917	1916	1915
Current assets	$180,298,731	$154,549,250	$99,080,481	$85,801,637
Current liabilities	53,569,105	28,414,061	15,901,360	12,026,080
Net working capital	$126,729,626	$126,135,189	$83,171,121	$73,775,557

It may be noted that last year General Electric paid off from surplus resources $2,757,721 of maturing notes. There are $10,000,000 additional notes which come due on December 1 of this year, which the company will undoubtedly retire at maturity. The only development likely to alter this program would be some unexpected expansion in its gross sales.

PACIFIC DEVELOPMENT.—The expectancy of satisfactory earnings for Pacific Development Corporation in its fiscal year to December 31, 1918, were fully realized. Although the final figures have not been definitely completed, it seems probable that the balance of net profits will be in excess of $2,000,000, perhaps as high as $2,300,000, a figure which would compare with net earnings for the 1917 year of $1,226,624 and $996,475 in 1916.

Each of the five subsidiary companies was a net earner in the 1918 year. In particular the showing of Andersen-Meyer, Ltd., which conducts business in China, was satisfactory. All the effort in China has been to establish an organization and position, and in the year 1918 that result has not only been achieved, but a very satisfactory, although small, final net profit has resulted.

Even more encouraging is the outlook for earnings for 1919, and especially for a very decided expansion in the earning capacity of the Andersen-Meyer subsidiary.

This corporation has been steadily strengthening itself in its field in China. In particular, its engineering department has secured the confidence and good-will of the Chinese with the result that through its engineering forces Andersen-Meyer has recently secured a number of very valuable contracts, including orders for four complete cotton mills. At the moment it looks very much as if Pacific Development would earn in 1919 a balance after all prior deductions of $3,000,000 to $3,500,000 on the present 112,839 shares of stock, which would figure out a very substantial profit per share.

At the time that the great European war was raging, attention was called to the fact that whereas the world war had been wasting the wealth and man power of western civilization, the East had been steadily adding to its accumulation of capital. This factor is a fundamental one in explaining the present strong position of Pacific Development. The Orient is apparently in the market for very large amounts of American goods and American manufactures and this demand seems tending to expand at a rapid pace.

Pacific Development shares will probably be shortly listed on the New York Curb and at some subsequent date will doubtless be traded in on the New York Stock Exchange.

As of December 31 last, they represented an asset value of more than $80 a share, substantially $65 of which was net working capital.

ISLAND CREEK—POND CREEK.—Island Creek and Pond Creek as a result of the slight demand which has prevailed for coal ever since the signing of the armistice, have materially decreased their rate of production. In the March quarter, Island Creek Coal produced a total of 311,000 tons, or at an annual rate of 1,244,000 tons. This is 65% of the 1918 production of 1,891,374 tons and about 63% of the 1917 output of 1,933,805 tons. Considering the fact that many soft coal producers are running at less than 50% of production, the record of Island Creek so far as output is concerned in the March quarter is fairly creditable.

In the same period Pond Creek Coal produced a total of nearly 177,000 tons, a yearly rate of 708,000 tons, which is approximately 70% of the 1,080,598 tons produced in 1918, and the 1,038,295 tons which comprised the 1917 record. In a period of unsettled price conditions such as that through which the coal industry is passing, it has been inevitable that both Island Creek and Pond Creek should show sharp decreases in earnings for their stocks. As a matter of fact, earnings of Island Creek in the March quarter were at a rate of somewhat less than the $4 dividend now being paid on its 118,800 shares of common stock. Pond Creek, however, made a somewhat better relative showing with profits after all taxes and prior deductions, at the rate of better than $1.60 a share, which more than covers the present $1 dividend on this issue.

If, as is generally expected, there is a decided industrial revival in this country before the end of this year, the earnings of both these companies are in line to show material improvement, a development, which would, of course, automatically follow could production figures be increased to better than the 1917 or 1918 rates of output.

LOUISVILLE & NASHVILLE.—During the last few years, which have seen one disappointment after another for the holders of railroad securities, the relative strength of the shares of the Louisville & Nashville R. R. Co. has been a rather noteworthy feature. These shares are, of course, selling much below their former level but, in spite of the fact that no more than 7% has been paid in dividends, they have not sold below 100 since 1908, while other good 7% railroad stocks have been quoted ten or even twenty points lower.

One reason for the relative strength of Louisville & Nashville may be found in the operating record during the trying railroad conditions of the last two years and particularly of the last year.

The annual compensation guaranteed to this company by the Government for use of the road amounts to $17,310,494. After adding other income and deducting fixed charges there remained a balance of $10,849,037, which is equivalent to 15.08% on the $72,000,000 of capital stock. In 1917 on its own operations the road earned 22.75% for its stock and in 1916, 23.56%. In 1915, owing to the low price and difficulty of marketing the southern cotton crop, the percentage earned for the stock came to only 6.75%. It is only because of this one poor year out of the three test years used as the basis of the Government rental that the annual guarantee and the share earnings figured therefrom are not considerably larger.

The Louisville & Nashville is one of the comparatively few railroads that in 1918 actually earned on its own operations more than the Government guarantee. The net operating income totalled $19,367,632, as against a guaranteed income of $17,310,494. If, therefore, the entire net of 1918 had accrued to the company the share earnings would have amounted to practically 18%.

Expenses of operation increased just about as much on this road last year as in the case of other roads. Total expenses amounted to $79,556,971, as against $52,998,759 in 1917, an advance of 50%. Gross revenues, however, jumped from $76,907,387 in 1917 to $101,392,792 in 1918, an increase of 32%. In actual figures expenses increased $26,500,000—a sum which was very nearly offset by the $24,400,000 increase in gross. The operating ratio in 1918 was 78.4%, as compared with 69% the preceeding year. It is evident, therefore, that it was largely because of the splendid expansion in gross that the company was able to make such a good showing as it did.

It may be that in the future gross revenues will not hold up to the 1918 level, but on the other hand from now on some reduction in operating expenses should be possible. Whether or not such a reduction would counterbalance a decrease in gross cannot be predicted. At all events, the Louisville & Nashville has a wide margin over and above dividend requirements and there would appear to be little occasion for the shareholders to fear the final settlement, whatever it may be, of the railroad question.

INTERNATIONAL CEMENT CORPORATION.—The first of the two kilns was put into commission last December, as previously advised. This has operated satisfactorily, giving a production of 1,000 barrels daily, and with a few minor readjustments, this should be increased to 1,200 barrels.

The plant has, indeed, given very good satisfaction. While a little additional quarrying capacity may be advisable, the putting into commission of the balance of the plant will depend chiefly on industrial conditions. The full capacity of the plant is less than one-quarter of the cement that the Argentine imported annually before the war and there can be no question but that when conditions are straightened out, there will be a very good demand for all the cement that this plant can produce.

At the time that operations were begun, both cement and coal were at most abnormal figures. There has been some reduction in both items, but the margin of profit of around $2 per barrel has continued and in the judgment of those who have studied the situation is likely to continue.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 805 May 16, 1919

THE GENERAL MARKET.—While specialties, as usual, have furnished the most sensational advances, it has, nevertheless, been a gratifying feature to note that what used to be considered the more standard stocks have shown a much better tone. This remark applies particularly to the railroads, steels and coppers. The character of the market can be gauged to a considerable extent by its response to news. It is certainly a characteristic of a bear market that no matter what earnings or opinions are reported, there is a steady pressure to sell. The news of late has been of a decidedly mixed character. There has, to be sure, been some of a good character, though it will be noticed that, when analyzed, this so-called good news has been as much expectation of future benefits as it has had to do with actual current events. There has been, on the other hand, no lack of what would ordinarily be considered discouraging developments; steadily falling unfilled business on the part of the steel companies and an entire lack of earnings by the copper industry, to say nothing of the frightful railroad figures, would not usually be construed as very bullish factors.

In spite of all these, there is unquestionably an excellent demand for stocks. This action of the market in the face of a good many adverse reports is typical of a bull market. Not only does it thus register confidence in a revival of business, but by its action it helps to bring about the very thing that it predicts. Decry the market as one will, the fact remains that all over the country, business men look to it as a cue to their own actions, and the confidence that it registers plays no small part in the restoration of business to which we are all looking forward.

The frightful railroad reports to which we allude above are of course the direct result of reckless Government operation of the roads and they have no immediate bearing on railroad securities, for the Government, as it should, has—for the time being—shouldered any deficits by the rental system. This country, however, we believe is getting pretty thoroughly tired of Government operation and is looking forward to the time when the railroads will be restored to their owners. Of course, before this is done some equitable system must be devised.

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As pointed out this week by one of the greatest minds, the essential thing is to establish a system that will control rates and still foster enterprise. If such a desirable result could be brought about, it would make the railroads, neglected as a class for the last four years, the best speculations in the market.

A feature that should not escape attention is the improvement in the copper metal market, during the past week. The fact stands out rather prominently, that copper is by all odds the cheapest important commodity in the world today. Practically the only one that is selling at pre-war prices. So long as other commodities remain at their present level, either copper must go up, or it will not be produced.

An interesting development that has taken place since the Armistice and one contrary to the opinion of many well-posted men, is the action of ocean freight rates. It was expected by many that with the large increase in tonnage six months after the Armistice was signed, rates would be decidedly lower. Instead of this they have advanced. Shipbuilding is one more enterprise that must be added to the list of those that can turn out their product now more cheaply in this country than abroad.

At the moment of writing, the market seems a little tired, and perhaps the oft-predicted reaction is at hand. This market, however, is based on two fundamentals; world-wide inflation and shortage of goods. We make this statement advisedly, in spite of the stocks of a few commodities that are held by producers actual users are unquestionably short.

Until this shortage is rectified, and until the bubble of inflation is pricked, the present tendency of the market will continue. This will be until supply catches up with demand. With the exception of a very few articles, the world's production of useful commodities was very much curtailed during the last four years. It will be some time yet before a normal balance can be restored.

Whenever it is, however, the inflationary tendency will cease and, of course, it will be found that, as usual, a good many excesses have been committed which there is only one way to rectify.

AMERICAN CAR & FOUNDRY CO.—Strength in American Car & Foundry undoubtedly reflects in part at least a partial discounting of the remarkable annual statement for its fiscal 12 months to April 30, which the company should issue some time in June. This statement is likely to prove something of an eye-opener not alone in the exhibit of financial strength which it will portray, but also in the disclosure of the scope of the company's war activites. It has never been adequately appreciated that American Car & Foundry was one of the most successful as well as one of the largest war supply producers to which the Government turned for assistance.

Beginning with May 1, 1918, and almost up to January 1, 1919, gross business of American Car & Foundry ran at the rate of $300,000,000, or approximately $1,000,000 of output per working day. This production included a wide variety of war equipment including limbers, caissons, shells, gas shells and other explosives.

Consequently, the fiscal year to April 30 will show a gross business running for eight months at the rate of $300,000,000 per annum and for four months at a less rate.

An overturn of $230,000,000 to $240,000,000 in the year just ended is a reasonable estimate.

In the April 30, 1918, fiscal year the profit for dividends amounted to nearly 10% of the gross overturn of $121,839,000. Owing to increased taxes and steadily advancing costs of production the margin of profit in the late 12 months was naturally lowered. It is interesting to note, however, that even on the assumption of a margin of profit of but 6% and a gross of $230,000,000 American Car in its late year earned $37 to $38 per share on the common, compared with 30.6% in 1918 and 27.3% in 1917.

At the end of April, 1918, American Car & Foundry had net quick assets of $32,674,479, a sum sufficient to cover the $30,000,000 preferred at par and leave over $8 per share for the common. It is difficult to figure the net quick assets as of April 30 just ended at anything less than $40,000,000, which would have $33 per share for the common above par for the preferred.

Perhaps the most remarkable feature of American Car & Foundry is its remarkable liquid condition. Its cash balances are far in excess of any previous period. While the outlook is for a slack period in domestic car orders American Car has a satisfactory total of export orders, something like $40,000,000. There is every probability that additional export business will shortly be booked. English car builders are already sold ahead for 14 months at capacity and most of the rest of the world must come to this country if it desires additional equipment. It is largely a question of finance. If American Car & Foundry can secure proper and reliable banking support to finance foreign orders it is morally sure to obtain some very substantial business. If this development occurs the holders of the $30,000,000 common are fairly entitled to share in the prosperity of the past three years in which over $75 above all dividends has been earned on the common and re-invested in the business.

UNITED FRUIT COMPANY.—As the situation lines up today only some very unexpected development can prevent the United Fruit Company from establishing another new high record of net earnings in its fiscal year to September 30 next.

In the 1918 fiscal year United Fruit realized the largest balance of profits in its entire history, the net before taxes and interest of $24,830,006 exceeding the 1917 showing by $7,237,614, or 41.1%.

In the seven and one-half months since the beginning of the current fiscal year, United Fruit has earned in round figures over $17,400,000, compared with $12,700,000 in the same period of the 1918 year. This is an increase of $4,700,000, or 37%.

With four and one-half months remaining it is considered an entirely safe assumption that the full 12 months to September 30 next will produce a net for interest, taxes and dividends at least $6,000,000 larger than the $24,830,006 earned in the 1918 year. In that event even if taxes were to reach a total of $12,000,000, or $13,000,000 as compared with $9,896,450 reserved for that purpose in the late fiscal period there would remain a balance for the $50,316,500 stock some 5 to 6% larger than the 28.02% earned in the fiscal 12 months terminated September 30 last.

It is interesting to know that 55% of the big profits being realized this year are derived from fruit importations. Back in the war period fruit profits formed but about 35% of total net profits. Charters and freight income account for 25% additional profits, so that 80% of all profits are flowing from these three sources.

United Fruit has now had returned to it by the Government all but three of its American boats. This handing back of its tonnage occurred at a most opportune time, as the season of heaviest fruit importations begins in April and lasts through into August. In other words, the argument that loss of its own boats was a penalty to United Fruit earnings seems to be pretty well sustained by the record of net income since all but three of its steamers were handed back.

The company's cash and working capital position continues entirely satisfactory. The September 30 balance sheet showed $20,351,798 of cash and $8,284,804 of United States and British Government securities, a total of $28,636,602. The present total of cash or cash equivalents is $35,000,000, of which $1,250,000 represents cash seggregated to retire the last of its 4½% debentures, which holders have so far failed to surrender on the company's offer.

Aside from these $1,250,000 of 4½% notes there is no bonded or floating debt ahead of the $50,316,500 capital stock and an interest charge which in the 1915 year totalled $1,714,000 has been virtually extinguished.

United Fruit in the next two years may spend $3,000,000 in increasing its tropical fruit cultivations, but this sum is so slight in comparison with its vast resources that its expenditure will scarcely be noted in balance sheet current asset totals.

The company will continue its present $10 dividend as a regular distribution. But surplus which stood at $35,040,154 on September 30 last promises to approximate $45,000,000 by the end of September this year. This sum, equal to $90 per share, is obviously so great that the day of some extra distribution to shareholders cannot be indefinitely postponed.

THE JUNIOR RAILROAD BONDS.—During the last few weeks there have been some indications of increasing interest in the railroad stocks. One of the principal reasons for this is doubtless the approaching convention of the new Congress and the belief that the railroad situation is already so critical that it is felt something must be done and will be done quickly to straighten out the tangle and safeguard the interests of the owners of the properties.

So far, however, little interest has been aroused in railroad bonds, which continue to sell not very far above the low prices of a decade or more. The mortgage issues of the soundest systems offer splendid investment possibilities, but some of the junior bonds of the standard roads, as well as the mortgage bonds of the less-well-known railroads, would seem to present not only good investment opportunities with a high return, but also excellent possibilities for speculative profits.

We have prepared the following table showing the present market, yield, and price range over the last six years of some eighteen of these bonds:—

	Range		Current	
	1912	1918	Price	Yield
Baltimore & Ohio conv. 4½s, 1933	98¼	69½	78	7.00%
Chesapeake & Ohio conv. 4½s, 1930	94	65½	82	6.80
Chicago Great Western 1st 4s, 1959	83	52	61	6.90
Chicago & Western Indiana cons. 4s, 1952	92⅛	61⅞	65	6.65
Chicago, Milwaukee & St. Paul conv. 4½s, 1932	107	65½	78	7.15
Chicago, Rock Island & Pacific ref. 4s, 1934	89	59¼	75	6.65
Colorado & Southern ref. 4½s, 1935	98⅛	66	79	6.60
Erie gen. 4s, 1996	80¼	47½	55	7.25
Missouri Pacific gen. 4s, 1975	69	52½	63	6.50
New Haven conv. deb. 6s, 1948	132½	80	81	7.50
New York Central deb. 6s, 1934	102¾	77	99	6.10
St. Louis-San Francisco 1st 4s, 1950	73½	53¼	63	7.00
St. Louis Southern cons. 4s, 1932	84½	51⅞	61	9.00
Seaboard Air Line ref. 4s, 1959	83	51¾	58	7.15
Southern Pacific conv. 4s, 1929	97	73	84	6.15
Southern Ry. dev. 4s, 1956	79¾	56¾	68	6.25
Western Maryland 1st 4s, 1952	88¼	53¼	61	6.90
Western Pacific 1st 5s, 1946	91¼	78	83	6.30

All of these railroads are guaranteed an income more than enough to pay their bond interest as long as Government control continues. Furthermore, most of them earned on their own operations in 1918 enough to pay the interest on these bonds. Unless the railroads are returned to private ownership under conditions which would make widespread receivership likely, there should be no question that interest payments on these bonds can be met, and it is inconceivable that any such conditions will be permitted.

ALLIS-CHALMERS.—Allis-Chalmers is today very clearly in just that sensitive position where any material expansion in the volume of its incoming orders would be quickly reflected in a sharp increase in net profits.

The results of the March quarter broadly speaking were satisfactory. Goods billed out to customers amounted to a total of $8,602,891, an annual rate of $34,411,564, compared with actual shipments in the December 31, 1918, year of $35,031,233.

Net profits in the March quarter after deduction of depreciation and all taxes were $996,024, or at the rate of $3,984,092 per annum. This compares with $4,305,749 in the 1918 fiscal year. This comparatively slight decrease of $221,657 is fully accounted for by the naturally heavy charges which the company is making for depreciation and taxes.

On the basis of the actual figures submitted to shareholders for the March quarter Allis-Chalmers is earning at the rate of 8.97% on its $26,000,000 common after deduction of dividends on the $16,500,000 preferred at the rate of 10%.

It is well to bear in mind that 1919 is the last year in which it will be necessary to figure 10% preferred dividends before striking a balance for the common. The accruals on the preferred will disappear this year so that 1920 common share earnings will get the benefit of only a 7% preferred dividend.

Allis-Chalmers during the March quarter received orders for $3,370,305 of apparatus, a yearly rate of nearly $13,500,000. In other words, the shipments of $8,602,891 were made possible by drawing down unfilled orders, which on March 31 stood at $17,921,117, against $23,153,703 on January 1. March incoming orders were larger than for either January or February. If the signing of peace releases a considerable bulk of new orders as is now expected, Allis-Chalmers will be in a position to increase its production and thereby stimulate its net.

The company's financial condition continues remarkably strong. The working capital which stood at $19,642,307, as of December 31 last, has now expanded to a total of over $21,400,000, a sum which covers the $16,500,000 preferred at par and leaves $20 per share for the common stock.

MANHATTAN SHIRT COMPANY.—An interesting illustration of an American specialty industry which has been very quickly and decidedly affected in a favorable way by the ending of the war, is the Manhattan Shirt Company. This corporation in the 12 months to November 30, 1918, earned a balance of 10.9% on its $5,000,000 common after taxes, depreciation and 7% dividends on $1,600,000 preferred stock. These profits compared with 13.3% in the 1917 year and 13.8% in 1916.

In the five months of the current fiscal year to May 1 net profits for the common after all prior deductions have been running at the rate of over $27 per share on the common stock.

In the 1918 year directors voted dividends at the rate of $4 in cash. In addition an extra of $2 per share payable in Liberty Bonds was distributed early in December.

So strong are current profits running that the company has just voted to place its common on a regular 7% dividend basis.

In order to broaden the market for the shares it is probable that some time later Manhattan Shirt stockholders will be asked to change the par of the common from $100 to $25 per share, thus creating 200,000 shares of common in place of the present 50,000. The new $25 par stock would have an earning capacity of $7 per share and might easily be able to pay $3 per share in dividends.

Manhattan Shirt gross sales have doubled in the last four years and an important feature of its present prosperity is its growing export market. Curiously the company has recently sold a large consignment of goods for shipment to China. It is broadening its lines of manufacture and is now making underwear and by fall expects to enter the pajama business as a substantial producer.

INTERNATIONAL AGRICULTURAL.—The sinking fund of International Agricultural is making substantial inroads into its bonded debt. The May 1 sinking fund operations which were completed this week resulted in the purchase and cancellation of $394,200 additional bonds, bringing its total of bonded debt down to $9,881,000, a reduction of $3,119,000 since the original issue of $13,000,000 was created in 1912.

The saving in interest charges through sinking fund cancellations now amounts to an annual total of $150,000, a sum equal to something better than 1% on the $13,000,000 preferred stock.

While the current fiscal year of International Agricultural to June 30 still has nearly two months to run the year's business has progressed to a point making entirely conservative the statement that results promise to outstrip any other fiscal period in its history. The 1918 year produced a balance for the preferred of 14.8%, compared with 9.3% in 1917. Gross sales this year have been record breaking. In fact, International Agricultural finds itself for one of the few times in its history, actually oversold and has been manufacturing fertilizer stocks to attempt to cope with the unexpected demand which has developed.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

Members of
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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
High Grade
Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 806 May 23, 1919

THE GENERAL MARKET.—Two events of the week taken together form an interesting combination. First, is the report of the foreign trade for April, showing new records in exports and balance of trade. The second is the break in foreign exchange to new low figures. The first emphasizes the fact that, in spite of all that may be said to the contrary, business in this country has been largely dependent, during the period of reconstruction, on foreign demand. To be sure, a large proportion of the exports has been in foodstuffs, but this has created the credits that have given the impetus to many lines of business in this country. Anything that would interfere with this export business would be a serious matter, and this is precisely what a drop in exchange rates would tend to do, as it would make the cost of goods in foreign money too expensive. Probably no effort will be made by the foreign governments to correct this as their attitude is one of rather discouraging importations. Possibly other markets outside of Europe will be developed; possibly business now has gained such momentum that foreign stimulus is no longer necessary. It is certain, in any event, that we could not expect exports and foreign trade balance to continue at the recent level, but a sudden shutting off of export demand would be serious, so it is just as well to watch this matter rather carefully.

The railroad problem has again come to the fore this week. We are strong believers in the individual operation of railroads, but to hand them back without some kind of provision for greater earnings would be calamitous. It is none of their fault that reckless Government operation has cut down their earnings to a point where few of them are earning even the rental promised them by the Government and many not even their fixed charges.

The greater efficiency of private operation would bring down the operating ratio to some extent, but it could not offset the tremendous wage increases. A correct solution of this problem is vital. It is at least essential that the railroads be freed from the restrictive pre-war regulations which it was found absolutely necessary to do away with during the war. If some arrangement of this kind could be arrived at that would furnish an inducement to the roads to put forth their best efforts to attract capital, it might prove the most satisfactory solution.

The period of inflation is still in full blast. This is not to say that one should plunge in recklessly. Many securities are now selling for as much or more than they are worth. On the other hand, others are not, and while there is a greater risk involved than there was three months ago, we do not believe this period will come to an end until there is a more general levelling of prices. Under the present stimulus, this should be a levelling upward and not downward.

LACKAWANNA STEEL.—Lackawanna Steel has a fair promise of being one of the very few larger steel companies that will come through the present depression in the steel industry without reducing the regular $6 dividend on its stock.

Lackawanna Steel earnings for the June quarter will be poor enough. But the management already sees signs of a distinct revival in demand and is confident that profits after June 30 will experience a decided improvement.

In the March quarter Lackawanna Steel earned net after taxes, interest, depreciation and extinguishment charges $1,207,109, compared with $2,277,281 in the same quarter of the December 31, 1918 year. This balance was equal to 3.44% on the $35,097,000 capital stock.

In April, Lackawanna Steel showed a slight loss after all deductions including taxes, interest and depreciation. May will probably result in another small deficit. The chances are, therefore, that with some revival in earnings in June the quarter to June 30 will break about even so far as a balance for the stock are concerned.

The position of the company is that inasmuch as a half year's dividends were somewhat more than earned in the first quarter the company should continue the $6 dividend, relying upon the reasonable probability of a sharp upward tendency to earnings during the second half of 1919.

Lackawanna Steel a few years ago was a rather poorly balanced steel producer in the sense that nearly 70% of its business represented steel rails and other business dependent upon railroad buying, while only 30% was general steel production.

Today only 40% of its productive capacity is dependent upon railroad buying, while 60% is general market steel. This diversification of output is already giving Lackawanna a certain stability of business which it did not possess five or six years ago.

In the three years 1916, 1917 and 1918, Lackwanna earned 104½% on its $35,097,000 stock, of which

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only 26½ was distributed in dividends. A portion of the balance was utilized to reduce bonded debt by $8,312,000, so that as of December 31 last, Lackawanna Steel had but $23,802,000 bonds, compared with $32,114,000 at the close of 1916 and a high total of over $41,000,000 in 1914.

Lackawanna Steel during the war period has increased its working capital by nearly 60% and at present has net quick assets of over $25,000,000, a sum which more than takes care of its bonds at par. This allowance is after inclusion of $11,729,000 for 1918 federal income and excess profits taxes.

It is the general impression in steel circles that the Government needs for the railroads at least 1,000,000 tons of rails in 1919. Some of this heavy buying will undoubtedly be placed in the near future. Such a development would greatly assist Lackawanna Steel in increasing its percentage of operations which are now running at less than 50% of capacity.

ANACONDA.—One of the most striking features of the report to our mind is that paragraph showing that the entire profits of the last three months were wiped out by the "adjustment for inventory purposes to a cost basis of copper which had been reported in the September estimate as sold at 26 cents, the orders for which were subsequently cancelled by the Government." In other words, the Government threw back on the company a large amount of copper which it had been urged to produce and the company was obliged to stand the loss representing the difference between the price fixed by the Government and its cost —the copper, after the order had been cancelled, becoming practically unsaleable.

Anaconda still does not, as nearly all other companies now do, report officially its cost of production. Branching out as it has done the last few years in new lines, notably the production of zinc, it becomes more than ever difficult to figure this item closely from the figures that it presents. One fact is distinctly ascertainable, namely, that on a production of approximately 273,000,000 pounds, it made a profit of $20,803,000, which is equivalent to 7.6 cents per pound. This is after deducting all expenses, including depreciation. If the company received last year the average price for copper of about 24½ cents per pound, this would indicate a cost in 1918 of about 17 cents. On this basis we compare as a matter of record the operations with those of previous years:—

	1918	1917	1916	1915
Tons copper ore treated	4,350,446	4,076,794	5,462,703	4,427,589
Pounds per ton	62.7	58.62	56.27	53.1
Pounds copper	272,923,031	239,014,880	307,395,092	235,076,289
Estimated cost	17c.	11.7c.	9.5c.	10c.
Pounds zinc	72,131,238	50,624,524	——	——
Net profit	$20,802,870	$34,333,751	$50,828,372	$16,695,806
Profit per share	$9	$14.72	$21.81	$7.16

An item in this table to which attention should be called is the increased value of the copper ore treated; an advance of nine pounds per ton of ore in three years is not a negligible matter.

Aside from the operating results, interest in the report will center chiefly in the "porphyry" properties in South America that this greatest of vein mines is developing. At the Andes property, 5,000,000 tons of ore were added by churn drilling, following a similar addition in 1917. The 1916 report gave the estimated reserves at 100,000,000 tons, so that this would, apparently, make up a total of about 110,000,000 tons. There is, apparently, no addition to the reserves at the Santiago property, where previously 6,000,000 tons had been reported. This would seem to give the company a total in these properties of 116,000,000 tons.

The company has issued $25,000,000 of notes to defray the cost of the development and equipment of these properties. Assuming a total of $40,000,000 as spent, it is rather interesting to note that the cost of these properties equipped per ton of ore will compare very closely with the selling price per ton of several of the older porphyry mines in this country.

NATIONAL SUGAR REFINING.—National Sugar Refining shares have attracted considerable attention in the outside market during the past few weeks by reason of their quiet but persistent advance. The current market for the company's $10,000,000 stock of 125 represents an advance of about 15 points during the past three weeks.

It is not generally appreciated that National Sugar is the second or third largest cane sugar refiner in the United States. Its Brooklyn and Yonkers plants have a capacity of 10,000 to 12,000 barrels per day. This compares with a capacity for all the refineries of American Sugar of about 40,000 barrels per day.

National Sugar until 1912 was an exceedingly close corporation. As originally capitalized the company had $10,000,000 each of preferred and common stock. A suit decided in favor of certain plaintiffs resulted in the cancellation of all the $10,000,000 common. Therefore, the $10,000,000 preferred was left as the only capital liability and was subsequently changed into common stock. American Sugar owned 49% of this stock.

A short time later American Sugar directors fearing that possession of so large a percentage of the stock might lead to misunderstanding offered half of the National Sugar stock in the American Company's treasury to their stockholders at par. The opportunity was very generally accepted and today a considerable percentage of National Sugar is held by New England investors who are also stockholders in American Sugar.

National Sugar earnings have been exceedingly satisfactory for several years and 1919 results promise to outstrip any former showing. The December 31, 1918, year produced earnings before taxes of about $2,800,000 or 28% on the stock. The 1917 results were not far from 25%. This year it would not be surprising if net profits before taxes approximated $3,300,000 or 33%. The company has no bonds or prior obligations so that all profits accrue to the single issue of stock.

Dividends of 7% were paid in 1918 and this continues to be the current rate. The company's financial position, however, is so strong that an increase in the regular rate or an extra distribution in the form of Liberty Bonds, of which the treasury holds $3,250,000, are either of them feasible any time directors so decide.

The last public balance sheet issued by the company was as of December 31, 1912. At that time the corporation had net quick assets of but $1,043,233. The present balance is understood to be between three and four times this amount. The total asset value for the shares is better than $175 per share.

National Sugar does not, of course, possess the great liquid assets of American Sugar nor does it have that company's outside investments. But its capitalization is but one-ninth of that of American Sugar, while its plants are every bit as modern and efficient as those of its larger competitor.

AMERICAN LOCOMOTIVE.—While it is true that the great majority of American industrials will show smaller profits in 1919 than in the previous year, American Locomotive furnishes a brilliant exception to the general rule. This company's fiscal year ends June 30 and according to preliminary estimates, it seems probable that the balance for the $25,000,000 common stock, after all prior deductions, including taxes, depreciation and 7% preferred dividends on the $25,000,000 preferred will leave a total of $40 to $41 a share. This balance would compare with previous years as follows:—

1919	$40.00
1918	16.64
1917	21.80
1916	26.08

Earnings of $40 a share on the junior stock would represent the largest balance of net profits accumulated by American Locomotive in any 12 months of its history. That such a record has been possible is attributable to two main factors.

In the first place, American Locomotive entered its new fiscal year on July 1, 1918, with a very large total of unfilled orders, the exact bulk of forward orders being $74,788,000, representing eight to nine months' business. On account of this very heavy carryover of unfilled orders, American Locomotive gross earnings in the June 30th fiscal year will attain a total never previously reached. At the moment it looks as if gross sales would reach an aggregate of $105,000,000 to $110,000,000.

The second factor explaining the strong earning power of American Locomotive is the marked efficiency of its plant system. A few years ago there was some danger that American Locomotive would become a group of assembling shops. Very many parts of the locomotive were purchased from outside manufacturers and the profits which should have accrued to American Locomotive went to outside part producers. This situation has been very radically altered. American Locomotive is today making more parts of its locomotives than ever before. This development will be still further accentuated as time goes on. Furthermore a balance of production has been attained in the different plants, so that it is no longer the case that a certain plant, for example, may be very efficient and expeditious in producing boilers, but very inefficient and dilitory in making other parts of locomotives. In other words, production has been so synchronized that each of the plants is a balanced and self contained unit.

American Locomotive in the war period expended about $5,000,000 on its plant system and with the exception of the acquisition of the steel castings plant, all of this money has gone into tuning up and increasing plant efficiency.

American Locomotive has never lacked physical equipment. Now that plant balance has been definitely secured, there is no reason why a permanently large manufacturing profit should not be assured.

American Locomotive will naturally carry over into its new fiscal year beginning July 1, a much smaller volume of unfilled orders than it did in either of the two previous years, but it is encouraging to note that within the past two weeks, some $6,500,000 of export orders have been booked. Furthermore, export demand promises to remain excellent for some time to come.

In view of this outlook for export orders, there is a good chance that the Locomotive Company will be able to show a fair bulk of earnings during the six months to December 31, 1919, by which time there is a fair chance that American railroads should be in the market with orders for locomotives.

It is understood that the company has at present a working capital balance of about $35,000,000, a sum sufficient to cover its preferred stock at par and leave $40 a share for the common stock.

UNION PACIFIC.—The Union Pacific report for the year ended December 31, 1918, stands out in pleasing contrast to the general run of railroad reports and should prove very satisfactory reading for the shareholders.

The rental received from the Government, based on the average net operating income for the three years ended June 30, 1917, amounted to $38,416,110. After allowing for income from investments of

$11,747,312, and deducting all charges to income, there remained a balance of $32,602,204, which after preferred dividends was equivalent to 12.87% on the $222,293,100 of common stock. The year ended June 30, 1915, the first of the test years, was particularly unfavorable. Net income was smaller than at any time since 1905, and the balance earned for the stock was only 10.98%. If it had not been for this unsatisfactory period, the guaranteed income would have been somewhat larger. As it is, the balance of 12.87% for the stock provides a good margin over and above the 10% dividend requirements.

It is, however, in the actual operating results for 1918 that the really sensational figures appear. The following table shows the results for last year, as compared with 1917, and the average for the three years ended June 30, 1917:—

	1918	1917	Average 3 years to June 30, 1917
Gross revenue	$158,845,175	$130,101,864	$104,707,040
Maintenance of way	$19,526,524	$15,348,222	$13,267,893
Maintenance of equipment	25,155,885	15,812,795	12,872,389
Transportation	47,461,552	37,882,464	27,528,301
Other expenses	9,060,945	8,251,677	6,746,819
Total operating expenses	$101,204,906	$77,295,158	$60,416,402
Net operating revenue	57,640,289	52,806,706	44,290,637
Net income	50,822,110	45,316,464	38,416,110

These figures illustrate better than anything else the remarkable progress which the Union Pacific has made. Operating expenses have, of course, increased a great deal. From the three-year average to 1918, total operating expenses jumped 67%—maintenance of equipment 95%, maintenance of way 47%, and transportation costs 72%. Gross revenue, however, increased 51%, or $54,000,000, which more than offset the $40,800,000 advance in operating costs. The final net income, therefore, for 1918, was over $12,400,000 or 32% larger than the average for the three years to June 30, 1917, which is the amount guaranteed by the Government while it retains control of the property.

Consequently, if there had been no such thing as Government control last year, and the company's operating income had been available for corporate purposes instead of having accrued to the Government above the fixed rental, the Union Pacific would probably have shown a balance for dividends of about $48,000,000, which would have been equal to approximately 19.8% on the common stock, the largest percentage ever reported. In short, the Union Pacific is one of the few roads in the country which would have been actually better off last year if dependent entirely on its own resources, with no Government guarantee of net income.

The great advantage which this company possesses in its strategic position and splendid physical condition was well illustrated during 1918. In his remarks accompanying the report the president states that while increased freight and passenger rates made effective in the middle of the year contributed substantially to the increase in revenue, a large part of it was due to the fact that, in time of war and congested facilities generally, the great volume of traffic moving between central California and the East found in the Union Pacific the shortest and best route and the easiest grades—in short—the line of least resistance.

ATLANTIC, GULF & WEST INDIES.—Too much stress should not be laid on the new oil well which the Atlantic Gulf Oil Corporation has brought in so far as its immediate income producing possibilities are concerned. In other words, the practical value of this new well might easily be over-emphasized. The capacity of the two established wells is so great that the proposed capacity of pipe lines and tankers will be fully occupied in handling the production of these two wells. The chief significance of the new discovery is that it shows the large reservoir of oil underlying the territory controlled by the Atlantic Gulf Corporation. The new well is, therefore, an important step in proving up the oil producing possibilities of Atlantic Gulf's oil acreage.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 807 May 29, 1919

THE GENERAL MARKET.—While there is no denying the fact that brokers' loans have undergone quite a material increase, and apprehension over the market condition is more freely expressed than ever, there are two things that seem to us pertinent in this connection of a reassuring nature. Although loans have decidedly increased, they are still quite a bit less than in the latter part of 1916. As a matter of fact, comparative figures on this item are rather misleading. Even if the loans exceeded the previous high figure, there would be no immediate cause for alarm for the simple reason that the basis for the loan structure is immensely broader than it was three years ago. We venture the assertion that before the climax is reached, the loans themselves will correspondingly exceed the figure of 1916.

Secondly, while the market as a whole maintains at all times an appearance of great strength, it will be observed that, from time to time, there are reactions in individual stocks that tend to reduce excesses. We could name a number of issues that have had reactions from their high prices of 10 to 20 points. If these occurred all at one time, it would give the impression of a liquidating market. As a matter of fact, they have simply lopped off what might be termed the excess growth, and in most instances stocks have come back sharply.

Indeed, just before the last rise, there is good reason to believe there was a considerable short interest, and it is a fact well-known to all brokers, that many customers have taken substantial profits and are waiting for a reaction. So that the technical condition, after all, is not so bad.

The best thing is that business is vindicating the market. There is no longer any question of the improvement in the textile business that began to show up a couple of months ago. This is now extending to steel and copper. There is no special buying movement; just a steady day to day expansion in business. We have recently witnessed the struggle of the railroad administration in trying to stem the tide, and with what result. They have finally had to buy. Even if they saved a few dollars per ton in the cost of their rails, they probably lost much more in the business that they might have done if the order had been promptly placed. By the time that the next order is given, it is more than an even chance that it will be at a higher price.

We do not agree with those who assert that the present movement of securities is just a bubble without any tangible reason or basis in fact. The truth is that tremendous economic forces are at work. We see the same process as was witnessed after the Civil War, only the forces now are world-wide and of much greater intensity. That inflation exists all over the civilized world, we do not deny. It is hardly too much to say that the world is off the gold basis. Some day there must be a reverse swing to the pendulum, and a market reflection of the enormous losses sustained during the war. Meantime, however, the needs of reconstruction are very real. The needs of Europe to buy enormous amounts of goods of all kinds, in depreciated foreign currency, is not to be denied, and on top of this is the demand from the balance of the world which, formerly, supplied itself in Europe. There is a basis here for continuation of the present movement through months to come.

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STUDEBAKER CORPORATION.—Studebaker has been generally regarded as an automobile manufacturer which would enjoy in 1919 a year of moderate earnings but whose big results could not be expected to materialize until 1920 when its new South Bend plant will be in production.

While the promise for 1920 is every bit as favorable as has been pictured in the financial district it may be stated very definitely that Studebaker will not be compelled to wait until next year to realize extremely satisfactory profits. In other words its prosperity is not only prospective but actually of the present.

The fiscal year is now sufficiently advanced to warrant the general statement that the 12 months to December 31 will produce a larger balance of net profits than any other year in its history.

Studebaker was so heavily committed to war production for the United States and foreign governments that the sudden ending of the war created a hiatus between war production and regular automobile and horse vehicle output which required two months to bridge. In short it was about the middle of January before passenger car output could be resumed in any quantity and naturally this production has since been on an ascending scale.

For all of 1919 Studebaker expects to produce 45,000 to 48,000 cars and an unnamed total of horse-drawn vehicles. This automobile output would compare with actual sales of 23,864 cars in 1918; 42,357 in 1917 and 65,885 in 1916 which was its record year of output.

Net profits in the largest year Studebaker has ever had—the 12 months to December 31, 1915—

reached a total of $9,248,375. This figure was before deduction of interest and there was, of course, no income or excess profits tax at that time. The 1919 prospect is very bright that the $9,248,375 will be exceeded but there is an interest charge of 7% on $15,000,000 notes and a heavy Federal tax to consider. It is, therefore, probable that the final balance for the $30,000,000 common stock will be less than the 27.4% earned in the 1915 year. On the other hand, it will be very much in excess of the 10.4% remaining for the common in the 12 months to December 31 last.

Studebaker as a result of current strong earnings and because of the December sale of $15,000,000 notes is in strong financial position. Not only is it borrowing no money but is actually loaning a number of millions at attractive rates.

The company, as things have turned out, could have gotten along with very much less than $15,000,000 notes. It was a precautionary measure, however, and was designed to clean up a floating debt situation and put the company in funds for its big new plant expansion.

Studebaker is sold months ahead. It can deliver to eager buyers every car its plant can turn out, and whether the total is 40,000 or 50,000 every car will be marketed. In 1920 the company with the South Bend plant in operation will have a capacity of over 100,000 cars per annum and a capacity of 150,000 cars when the South Bend plant is fully completed.

One of the agreeable features of Studebaker operations is the marked gain in precentage of manufacturing profit. The 1918 war work was a small contributor to net. The profit on this work was less than 5%. It goes without saying that with passenger car production running at next to the largest total in its history the margin of profit is much greater than was realized on war work. Studebaker seems to belong to that class of industrials which were injured by the entrance of the United States into the war and which have almost immediately gained by the restoration of normal production activity.

WESTINGHOUSE ELECTRIC.—The striking feature of the Westinghouse Electric annual statement for its March 31, 1919, fiscal year is of course the relatively enormous charge against earnings for Federal income and excess profits taxes. Out of total net profits after interest, depreciation and other deductions of $30,454,853 there was set up for taxes $15,395,846 or 50.5%. Unfortunately the 1918 report does not disclose the exact amount reserved for taxes, but it was approximately $2,800,000. In other words, the 1919 allowance for taxes was more than five times as great as in the previous year. This $15,395,846 is equal to 21.74% or $10.87 per share on the $70,813,950 common stock. The 1918 tax reserve was less than $2.25 per share on the common.

At the end of March this year there was a balance of net quick assets of $69,694,611 compared with $60,391,921 on March 31, 1918. The comparison is not entirely accurate, but is approximately so because the New England Company had little or no net working capital.

This calculation of working capital is a rather severe one because it treats as a current liability some $8,186,781 of subscriptions due on Liberty bonds and fails to allow as a current asset any of the millions of Liberty bonds which the company owns or is paying for through these Liberty loan subscriptions. The deduction of these Liberty loan subscriptions would give Westinghouse an effective working capital of over $77,880,000, a sum sufficient to offset its bonds, its $15,000,000 one-year notes at par and its $3,998,700 preferred at par and leave $37 per share for the common.

The 1919 statement is not strictly comparable with those of previous years for the reason that the 1919 consolidated balance sheet and income account include the New England Westinghouse as well as all other subsidiary companies. Previously the balance sheet did not include the New England Company, and the only way its results appeared in income account was in the form of dividends on stock in the parent company treasury.

For this reason the 1919 gross of $160,379,943 is not strictly comparable with the 1918 sales of $95,735,407. The gain of $64,644,536 is more apparent than real because the 1918 gross of $95,735,407 did not include the sales of the New England Westinghouse Company.

The working capital position of Westinghouse improved substantially during the 12 months to March 31 last with a balance of $37 per share for the common.

A year ago Westinghouse was borrowing $12,700,000. March 31 loans were down to $5,280,000 and are considerably less at present. Some time during 1919 they will disappear, leaving only the $15,000,000 one-year notes due in February, 1920.

WESTERN UNION.—It now seems assured that Western Union will be returned to its owners with profits in much better condition than seemed probable two or three months ago.

For one thing gross business has held up remarkably well since the ending of the war and during the transition period in general business. Volume of traffic is now on a practical parity with a year ago, while in dollars and cents gross receipts are running not far from 20% ahead of the same months of 1918. This gain, of course, reflects the increase in general rates which were established in consideration of the relatively enormous wage increases which Western Union made during the war period. In 1918 alone for example the wage bill expanded by $10,600,000.

Western Union as a result is now fully earning the Government compensation which in terms of the $99,786,727 stock means total profits sufficient to make the present 7% dividend entirely conservative.

There has been a disposition to fear that the ending of the war might produce a measurable contraction in Western Union's cable business. This apprehension does not appear to be well founded. The cable

lines which have already been returned to the company are handling a capacity business and good judges believe that the international position of this country is such that cable business will permanently be of very large volume.

It is cheering to note that this fine old investment property promises to return to private operation with its earnings and financial position in reasonably satisfactory condition.

KENNECOTT COPPER.—Kennecott furnishes a rather more interesting subject for study than the ordinary copper property, as it is more complex. The company has three principal assets: Its Alaskan properties; its holdings of Utah Copper and the Braden mine in South America. Of these only the first two have produced any divisible income for the holding corporation. The Braden has produced large amounts of copper and has shown considerable earning capacity, but all of these earnings have had to be turned back into the property to date for development and construction.

The income account, therefore, of the Kennecott for the last year, after deducting interest and depreciation, but not including ore depletion and some bookkeeping adjustments for previous years shows as follows:—

Alaska properties	$8,100,598
Other income including dividends from Utah Copper	5,282,136
	$13,382,734
Braden	5,804,674
Total	$19,188,408

On Kennecott's 2,787,000 shares, these total earnings amount to $6.88 per share, but the sum of the first two items, which is all that can be considered under present conditions as the divisible income on stock amounted to $4.80 per share.

The Bonanza Mine of the Kennecott is probably the most remarkable deposit of high-grade ore that has been discovered. In 1915, the total cost of production from this ore body was only 4½ cents per pound. The next year it shipped a total of nearly 100,000 tons of material from this property, running over 53% copper. The next year, however, the property underwent the usual experience of a decided drop in average value, with a large increase in shipments, the average grade dropping to 13.78%, and in 1918 it fell still further to 10.59%. The low grade Latouche property has shown rather more consistent results, though the tonnage dropped from 184,000 tons in 1916 to 124,000 tons in 1918.

Thus, these Alaska properties of the Kennecott, owing chiefly to the lower value of the ore, but also largely to labor and other operating difficulties, dropped from 108,000,000 pounds of copper in 1916 to 58,684,000 in 1918, and from 1,101,000 ounces silver to 695,000. The 1918 cost of producing this copper was something over 10 cents.

It should be noted, however, that the operating results were very creditable, the recovery on the low-grade ore running over 80%.

Kennecott has 616,000 shares of Utah Copper that stands it $82 per share, just its present market price. On this the company received last year almost 10%.

Finally, we come to its investment in the Braden, which stands it on the books almost $40,000,000, 30% of Kennecott's entire assets. This is one of the world's great ore bodies containing, as estimated at the close of last year, 173,000,000 tons of positive ore, running 2.45%, and 90,000,000 tons of probable ore running 1.88%.

It has taken, however, a great amount of money to develop and equip this property; at the close of last year, the equipment and mining charge, after depreciation, totalled $25,000,000, and in addition to this the company had an investment in steamships of nearly $9,000,000 more.

The operating results have been creditable,—the company treating last year 1,962,000 tons, with a recovery of 83.76%, but its cost of production has, nevertheless, been high; apparently, last year amounting to 18¾ cents per pound, of which over four cents were in delivery and selling expenses.

This has been an expensive property for the Kennecott to carry without any income, but it would seem to hold out possibilities of good returns with anything like normal ocean freight rates.

VIRGINIA CAROLINA CHEMICAL.—The fiscal year of Virginia Carolina Chemical which ends May 31 can hardly be expected to duplicate in full the strong showing obtained in the 1918 financial period. In that twelve month Virginia Carolina earned a balance for its $27,984,400 common after all previous deductions including taxes of $6,783,692 or 24.2%.

Although final figures will obviously not be complete for several months it now seems probable that the common share balance will run between 16 and 18%. Except for the 1918 year this percentage for the common would be the largest in the history of the company and if other factors were equal would undoubtedly justify directors in advancing the present 4% rate on the common to a 6% basis. But other factors, notably the item of inventory are not normal and it is not improbable that an increase in the dividend rate will have to wait until the company has cut down its bank loan total. On the other hand, the treasury contains a respectable total of Liberty bonds and it is possible that the 1918 extra dividend in Liberty bonds may be repeated this year, although the question has obviously not yet been determined.

The May 31 year will show perhaps a 10% contraction in volume of fertilizer sales. The business of the Southern Cotton Oil Co., the cotton oil end of the company's business has been eminently satisfactory. This fact coupled with higher prices for fertilizer are likely to produce a volume of gross that will compare favorably with the 1917–18 overturn of $122,463,670. The outlook for the cotton oil business is encouraging and a good sized export business in these fat substitutes is believed assured with the signing of peace. Cotton oil trade mark goods are selling below their normal parity with lard. A normal spread is 2 to 3 cents and the present difference in favor of lard is nearly 9 cents. This gap should logically be closed up when Government restrictions affecting the cotton seed industry are abolished.

In getting the perspective of Virginia Carolina it is highly important to bear in mind that this company is apparently committed to the policy of financing out of earnings an expansion which many another would capitalize. In five years gross sales have increased in round figures 100%. But fixed capital including bonds has in this interval been unchanged save for a decrease of about $1,400,000 in bonded debt. Naturally a floating debt item has accumulated. It will take a year or two longer to eliminate these bank obligations, but when the process is completed Virginia Carolina will have laid the ground work for sustained substantial values for its common stock.

CUBAN PORTLAND CEMENT.—The next month will be the last during which this company will operate at half capacity. The installation of the new machinery is progressing satisfactorily, and this will undoubtedly go into commission in July.

As a matter of fact, every month since the turn of the year has shown a very fair operating profit, the estimate for May slightly exceeding the best previous month. With the plant operating at capacity, the manufacturing cost will be materially, and the overhead charges radically, reduced, showing a very decided increase in the profit per barrel.

The custom introduced by this company of handling the cement in paper bags has worked out satisfactorily, and as soon as facilities for handling this in volume are completed, most of the nearby tonnage will be so handled, reducing costs materially and being a benefit both to the company and its customers.

The demand for the cement has, at all times, been in excess of the company's ability to supply it, and now that it is becoming more generally known, there seems to be no reason to doubt an excellent market for it, even with an output twice as large as the company has had up to this time.

ATCHISON.—During 1918 the Atchison received federal compensation amounting to $42,885,310, which after all additions for other income and deductions for rentals and interest charges left a balance of $28,348,432 available for dividends. After preferred dividends at the annual rate of 6% there remained the equivalent of 9.98% for the $221,785,500 of common stock.

These figures, however, include a net debit of $2,620,483 for expenses incurred in previous years, but charged against 1918 operations. This item amounts to 1.18%, so that without this deduction the balance for the common would have been 11.16%.

As long as the railroads continue under Government control, the payment of dividends is in no way dependent on actual earnings. It is, nevertheless, gratifying that this company's actual operations showed a profit to the Railroad Administration over and above the compensation it has agreed to pay. Gross revenues were $187,658,223, as against $165,529,519, while net was $51,865,163, as compared with $60,222,878 in the 1917 year. Gross increased $22,000,000, while net decreased $8,400,000. Operating ratio, however, was 72.3% in 1918, as compared with 63.5% in 1917, quite a satisfactory showing in view of the operating difficulties that beset the railroads last year. The net operating income as defined in the Federal Control Act—in other words, the figure which is comparable with the guaranteed compensation, totalled $44,206,338. Thus the Government made a profit of $1,321,028 from its operation of the Atchison besides collecting some $3,000,000 in war taxes. This figure is equivalent to .6% on the common stock. Consequently, if the company had operated its property for its own account under the same rates and other conditions as prevailed last year, the net earnings for the junior stock issue would have been equal to 11.76%. This is the percentage which should really be compared with the 14.51% reported in 1917.

Since the Government will, in all probability, continue to control the railroads for the balance of this year, the Atchison will receive an income equal to between 10% and 11% on its common stock, which pays dividends at the rate of 6% annually. With the prospect of a return to private operation after that time, however, it becomes increasingly important to study the actual current earnings. For the first three months of 1919 the Atchison system reports a net operating income of $5,938,121, as against $8,903,236 last year, a decline of nearly $3,000,000, and this, too, in spite of the fact that the first quarter of 1918 was a particularly poor period. The March net alone showed a decline of over $2,500,000 from the figures of the same month in 1918. Of especial significance is the relative showing in gross revenue. A year ago the increased freight and passenger rates had not yet become effective, and yet the March, 1919, gross was smaller than that of the same month in the preceding twelvemonth. This would appear to indicate a serious slackening of business, and either a great improvement during the remainder of the year or a further advance in rates will be necessary to enable the company to show the common stock dividend earned on its own operations.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—The market had risen so steadily for months without a break worth mentioning that in some quarters the feeling was beginning to take shape that there would be no reaction until the movement was over; that the first break of any importance would be the signal to liquidate. This week's events have gone far to disprove this theory. Undoubtedly, there was serious danger of over-speculation; but whatever the motive, the marking up of money rates and the consequent break has done much to clear the atmosphere. It has accomplished two things: it has improved the technical position of the market and it has demonstrated that the forces behind this movement are stronger than any temporary flurry in the money rate. In fact, one cannot but be impressed with the steady advance in raw materials and goods of all kinds. It was not many months ago that balance sheets were being carefully scanned and those companies carrying heavy inventories were rather looked upon with disfavor. Now it is beginning to appear as though the companies with the heavy inventories would be the ones to reap the heaviest profits. It has certainly been so in leather, cotton and wool. If the Steel Corporation's statement of unfilled tonnage shows any reversal of the tendency of the past several months, it will tend to hasten the movement already gaining momentum to purchase this commodity. The buying of copper, while not sensational, is showing steady and satisfactory gains. One of the most interesting of the raw commodities is sugar. Statistically, this is, perhaps, in the strongest position of any. The Far Eastern production is much reduced this year and will not come in competition with the Cuban product, all of which will be needed to supply the wants of this country and Europe. The latter, with its much reduced output from beets will require large amounts from outside sources for probably two years to come. Next season there will undoubtedly be no restriction on the price, and it will be interesting to watch the result.

There should be frank recognition of the fact that the selling value of securities is enormously higher than it was six months ago, and we are by so much nearer the end of this movement. The market, with every rise, becomes more vulnerable and reactions such as we witnessed this week are likely to become more frequent. Also the thought should be kept steadily in mind, that this rise in security prices is in response to an influence which is very real while it lasts, but can hardly be called permanent, and that some day there will be an influence of corresponding magnitude making for a reaction.

Nevertheless, the forces of inflation are literally so tremendous that we doubt very much if, marketwise, they have by any means spent their force.

INTERNATIONAL MERCANTILE MARINE.—Considering the magnitude of the issues involved, stockholders of International Mercantile Marine have been granted comparatively little specific information upon which to predicate a sound judgment as to the acceptance or rejection of the offer of the British syndicate to buy the company's assets, including its 780,000 tons of British registered shipping.

Mercantile Marine shares for many months have been "mystery issues." During all this period there has apparently been a continuous effort on the part of the management to sell the tonnage and liquidate the property.

Obviously, the primary motive in selling has been the desire to get out while the going was good.

It must be remembered that the Mercantile Marine management has been with the property many years. During all but the last four to five years they have seen the property struggling under a tremendous load of apparent overcapitalization. The opportunity now offered to retire all bonds, set up cash for the preferred equal to par and 57% of accrued dividends and still have a considerable body of assets left for the $49,872,000 common, has naturally impressed the management and directors of International Mercantile Marine as the realization of something that exceeded their fondest hopes a few years ago.

Frankness, however, compels the admission that it is to be regretted that more detailed information could not be given to Marine shareholders so that they might form a more intelligent opinion as to whether or not they desire to accept the offer of the British syndicate at the special meeting to be held on June 16.

As the situation apparently lines up the bonds and preferred stock are admirably protected if this sale is consummated. Perhaps naturally the onus of liquidation falls on the $49,872,000 common stock, or to state the matter even more bluntly, it would seem as if Marine common would be worth more speculatively if the business were continued than as if it were liquidated. In making this broad assertion, we have in mind the probability that steamship earnings will continue at a high level for several years to come and that the Mercantile Marine fleet unquestionably represents the largest amount of high grade tonnage in the world under a single ownership. It now appears that if the offer of sale is accepted the entire $48,317,000 of funded debt will be retired.

The offer of £27,000,000 is net after the cancellation of some £2,109,000 of subsidiary company bonds so that the bonded debt which Mercantile Marine itself would take care of would amount to about $39,000,000. These bonds are callable at 110, requiring between $42,000,000 to $42,500,000 of cash for their redemption.

It is also understood that the offer of sale is net to the company after payment of any British income tax. Therefore, the only income tax which need be considered is that which might be levied in the United States. Conceivably, if these bonds are paid off in cash, there will be an income tax of $3,000,000 to $4,000,000 be paid on this account.

Marine preferred apparently can avoid payment of an income tax if an exchange in kind is effected. In other words, the intention is that the present preferred stockholders will receive the shares of the International Navigation Company, a British corporation. The liquidation of Marine preferred will be on the basis of par plus the 57% of the accrued dividends. In other words, if Marine shareholders desire to secure cash they must sell their International Navigation stock given in exchange and themselves personally assume the burden of the United States income taxes plus any loss on exchange through conversion of British securities into American cash.

Perhaps the most significant feature of the annual statement for the fiscal 12 months terminated December 31 is the pronounced gain in net quick assets. At the end of last year the consolidated income account showed a balance of working capital of $39,682,069, an increase of $8,916,326, or 28.9%, compared with December 31, 1917.

In the three years since December 31, 1915, International Mercantile Marine has increased its net quick assets by $25,285,784, a gain of slightly better than 175%. The detail of working capital as shown below, gives an interesting picture of a marked increase in financial strength. Undoubtedly it does not tell the entire story. For instance, the cash balance including stocks and bonds, amounts to but $49,000,000, whereas President Franklin, in one of his recent statements, declared that the system as a whole had in hand in its own treasury and in the treasury of its subsidiaries, cash or cash equivalents to a total of something in excess of $73,000,000. However, this comparison of working capital is interesting in the progressive gain which it records in financial stamina:—

Working Capital Position.

	1918	1917	1916	1915
Current assets	$82,891,765	$70,746,094	$43,354,199	$32,096,607
Current liabilities	43,209,696	39,980,351	16,020,680	17,700,322
Working capital	$39,682,069	$30,765,743	$27,333,519	$14,396,285

There is a point in connection with the liquidation of Mercantile Marine which seems to have escaped the attention of the financial community. This is the fact that after the company is finally liquidated there will remain for the common stock certain cash assets and terminal properties in the United States plus approximately 113,000 tons of American boats. At the present time this American tonnage is earning net before depreciation, between $4,000,000 and $4,500,000. This is a considerable earning power and would seem to warrant the statement that for the next few years at least, Marine common can count on net earnings of $6 to $7 a share from its American fleet.

ATLANTIC COAST LINE.—Under the Government guarantee the Atlantic Coast Line in 1918 received from the Railroad Administration a compensation of $10,180,915. After adding other income of $3,888,228 and deducting taxes, interest and sundry charges, there remained a balance of $7,171,954, or the equivalent of 10.17% on the $67,559,400 of common stock. Since the other income is derived chiefly from dividends on the company's controlling interest in the Louisville & Nashville stock, it may be regarded as a reasonably stable item. There is, therefore, no question of the company's ability to maintain it 7% common dividend as long as Government operation continues.

Actual operating figures for 1918 also made a very good showing. The net operating income for the twelve months as reported to the Interstate Commerce Commission amounted to $11,175,148. This corresponds to the Government compensation of $10,180,915, and assuming the same additions and deductions as made to and from the standard return, the final balance for the common stock should amount to approximately 11.6%. Thus the Atlantic Coast line is one of the comparatively few railroads which would have been really better off last year if there had been no Government guarantee of income.

With the prospect that the railroads will be returned to private ownership after this year, the current earnings become of more interest to the stockholder. In the past four months of 1919 this road reported a net operating income of $3,704,139, as compared with $5,023,818 for the same period in 1918. Most of this comparative decline took place in February and March; April showing practically the same net as a year ago. An exceptionally large proportion of the year's net is earned in the first four months—nearly 40% on the average. On this basis, the indicated net for 1919 would be about $8,500,000. This would apparently mean a balance of about 7.5% for the stock. While such a decline is disappointing, the common dividend is still being safely earned—in pleasing contrast to many of the biggest and most substantial systems in the country.

LOOSE-WILES BISCUIT COMPANY.—Loose-Wiles is sharing with National Biscuit in the heavy buying demand from all parts of the United States for cracker and biscuit products. The very inability of the American people to buy these goods in as large volume as desired during war times seems to have inspired them with a determination to retrieve war's deprivations at the earliest possible moment.

Loose-Wiles, like National Biscuit, is doing the largest volume of business in its history and net profits are running 75% in excess of the best previous year the company has ever had. In the 12 months to December 31 last Loose-Wiles gross sales exceeded $30,000,000 and this year they may reasonably be expected to reach $40,000,000. In its first year of operation gross sales did not reach $12,000,000.

Loose-Wiles has an exceedingly conservative capitalization for its present volume of business. There is $4,865,000 of 7% first preferred on which dividends have been paid continuously and a small issue of $2,000,000 7% second preferred on which accruals now amount to nearly 30%, or $600,000. The common stock issue is $8,000,000, a capital of but $14,865,000.

Loose-Wiles in 1918 increased its working capital by $1,800,000 to a total of $5,179,033. By the end of 1919 there is every prospect that the balance of net quick assets will approximate $7,300,000 and that the last of a floating debt item which at one time amounted to $4,000,000 will have been extinguished.

As earnings are developing there is good reason to believe that Loose-Wiles in 1919 will be able to clean up the arrears of back dividends on the second preferred. This exceedingly small issue of second preferred has been a nuisance to Loose-Wiles ever since it was created and it would not be surprising if in time a way were found to get rid of it. For one thing it is convertible into common at par. While it may appear somewhat optimistic to speak of dividends on the common as a serious early possibility there is no question that with its present working capital position and the strong earnings being realized this year the only serious obstacle to early common dividend action is the $600,000 cash required to pay up the accruals on the second preferred.

Loose-Wiles and National Biscuit have discovered that there is room enough for both to live and prosper without recourse to the savage price cutting methods that prevailed up to 1916. This personal relationship factor combined with the complete abandonment of the "fixed price" selling policy explain Loose-Wiles' present prosperity and afford grounds of belief for its continuance.

ASSOCIATED DRY GOODS.—The noticeable strength in Associated Dry Goods issues in recent weeks, both preferred and common is a direct reflection of the rather striking expansion in earning power which this company has been enjoying since January 1.

Associated Dry Goods was formed in 1916 and during its brief history has never been able to do business under peace time conditions until this year.

The present remarkable prosperity of the retail dry goods trade throughout the United States has given to Associated Dry Goods an earning power which was hardly suspected in 1917 and 1918.

The company owns outright or controls department stores in six large cities distributed as follows:—

New York	2
Baltimore	1
Buffalo	2
Newark	1
Minneapolis	1
Louisville	1

The fiscal year to December 31, 1918, was productive of net earnings after taxes and interest of $1,603,476 compared with $1,530,885 in 1917 and $1,097,355 in 1916.

It requires $1,297,586 to pay the 6% dividend on the $13,818,700 first preferred and 7% on the $6,725,500 second preferred. Both dividends became cumulative after December 1, 1917, and no accruals exist. In three years the surplus above dividends has slightly exceeded $2,700,000 or about 18% on the $14,985,000 common stock.

Since January 1 net profits after taxes have shown a gain of 95% over the same period of 1918. By June 30 there is every probability that Associated Dry Goods will have earned a full year's dividends on its preferred stocks with a balance of several hundred thousand for the common. For all of 1919 it would not be surprising if common stock profits after all prior deductions amounted to better than 12%. The 1918 common stock balance was but 2% and in 1917 but 1½%.

There have been rumors of a dividend later this year on the common. The chief obstacles to such a development are the need of additional working capital to finance its heavy volume of business. Furthermore if Associated Dry Goods should elect to expand its store system to other cities as is not improbable, it could very properly ask common stockholders to assist in financing this growth out of earnings.

The present prosperity of this company is very interesting as showing the purchasing power of the American people, a buying movement held in check only by the exigencies of war conditions.

NORTHERN PACIFIC.—The Northern Pacific report for the year ended December 31, 1918, shows a final net income available for dividends of $20,129,334, or the equivalent of 8.11% on the $248,000,000

of capital stock. This is based on a Government compensation of $30,089,691 and is after a net deduction of $544,246 on account of expenses accrued prior to January 1, 1918.

Actual operations during the year showed a net income of only $28,861,263, so that the Railroad Administration incurred a loss of a little over $1,200,000 on its guarantee. However, even had the company been entirely dependent on its own operations for the payment of dividends, there would still have remained margin over and above the 7% requirements, for the percentage earned on the stock would figure out about 7.39%.

This percentage compares with 11.90% and 10.87% reported in 1917 and 1916 respectively, and is the smallest in more than a decade. In 1917 the company received an extra distribution of 10% on its holdings of Chicago, Burlington & Quincy stock. With other less important changes in dividends received, this made a difference of $4,800,000 in other income. If, therefore, last year's other income had been on the same basis as the year before, actual earnings for 1918 would have been approximately 9.3%. Or, perhaps, since the 1917 dividend income was out of the ordinary, it would be better to compare earnings of 7.39% in 1918 with about 10% in the preceding period.

For the first two months of 1919, both gross and net revenues were larger than in the same period of 1918. But in March there was not only a severe drop in net but gross was smaller for the first month since higher freight rates went into effect last summer. The net operating income for March was $1,099,471, as compared with $2,551,501 last year, and the net for the quarter was $3,987,522, as against $4,831,424 in 1918.

AMERICAN DRUGGISTS SYNDICATE.—The shares of this company, which of late have enjoyed considerable activity on the New York Stock Exchange, make one more addition to the steadily growing number of stocks with a small par value being traded in on the big Exchange. Only a few years ago a par value other than $100 was almost unknown, except in the case of mining shares. During the past few years, however, shares with a smaller par value, or as is still more to be preferred, with no par value whatever, have become increasingly popular.

The American Druggists Syndicate has outstanding 412,362 shares of stock, with a par value of $10. It has no bonds or preferred stock, so that the total capitalization amounts to only $4,123,620. The company was organized in 1910 as the successor to a concern that had been established in 1905. It is both an operating and holding company, and directly or through subsidiaries is engaged in the production of drugs, chemicals, toilet articles—in fact, most of the articles carried by the ordinary drug store. Most of the manufacturing is done at a factory and laboratory at Long Island City, N. Y. It also owns a cotton mill in Connecticut and has distributing agencies and storehouses in various parts of the country.

The net earnings of the present corporation available for dividends, together with the equivalent per share on the stock now outstanding and the dividends paid, have been as follows during the past five years:—

Year to Dec. 31st	Net Income	Per Share	Dividends Paid
1918	$464,808	$1.13	$ .80
1917	416,748	1.13	1.20
1916	414,369	1.12	.80
1915	401,330	1.21	.70
1914	270,569	.90	.90
1913	290,191	1.28	.80

The above share earnings are figured on the amount of stock outstanding at the close of each year. In 1914 and 1913 outstanding capital totalled only $3,034,070 and $2,263,780 respectively, as against $4,123,620 at present. Dividends paid in 1912 were 20 cents, and in 1911, 40 cents. In 1918, 80 cents was distributed, half in March and half in September, and the stock may now be considered on a regular 8% annual basis.

According to the balance sheet of December 31, 1918, net working capital amounted to $2,969,895, or about $7 per share on the stock. Other tangible assets had a value of over $2,000,000, so that it would appear that the stock had a book value of pretty close to $12 per share, or approximately its present market price.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 809 June 13, 1919

THE GENERAL MARKET.—The principal force behind this market has been expansion and inflation. This applies as much to market credit as to business and commercial credit. Put any obstacle in the way of obtaining this credit and immediately the market is deprived of much of its ammunition. This is what has been taking place the last few days. It means, in our opinion, the end of the spectacular, perpendicular advances. This is not saying that the advance to date may not be justified, but compare prices with those of six months ago and it will be seen that the market has discounted a good deal in the way of business improvement. This improvement, of course, has already been large in some lines, but not in all. The statement of the Steel Corporation's unfilled orders is evidence that business has yet some way to go before fully justifying the market's advance. It will not do a bit of harm for the market to rest on its oars for a few weeks, and even months, and give business a chance to catch up.

Two things occur to us, especially inducing caution; the profits that the stock market has been anticipating are largely based on the expectation of foreign demand, yet students of conditions abroad pretty generally agree that Europe as yet is in no shape to take a very large amount of our goods. Certainly, we must prepare ourselves to loan her the wherewithal before we can expect her to do so. Secondly, labor is becoming so unreasonable in many of its demands that it is likely to eat up much of the profit and thus reduce the incentive to new enterprise.

One class of stocks which is free from any taint of inflation are the coppers. It can be very easily demonstrated that as soon as these companies can sell the copper they are capable of producing, not at an abnormal profit, but merely at a normal spread between cost and price, they will be able to earn very good returns on their present prices. This they will soon be able to do. Government stocks of copper are rapidly disappearing here and abroad. The rise of 3 cents per pound in the price in the face of heavy accumulation shows that the curtailment of production is very rapidly straightening out the industry.

There is no getting away from the fact that this country is going to do a tremendous business. There are a number of enterprises that we believe, as time goes on, are likely to be worth a good deal more money.

We believe it not impossible that events may so shape themselves that after a few months the market may safely resume its general upward trend, but for the time being, we should consider it best to observe a good deal of caution in making new commitments.

PUNTA ALEGRE SUGAR.—In spite of very heavy rains during the last month that have greatly interfered with the cutting of cane throughout Cuba, the Punta Alegre Company has now produced approximately 600,000 bags of sugar, thus fulfilling the estimate that was made for the company at the beginning of the crop year. This compares with an out-turn last year of 442,000 bags, an increase of 35%. This is considerably more than the average of the Island as a whole. The latest estimate of the total crop is about 4,000,000 tons, as compared with about 3,600,000 last year, a gain of 11%. The Trinidad plantation is still grinding, and it is hoped that the Punta Alegre may resume shortly, so that there may be some over-run. It is hardly necessary to say that with this production the earnings will compare very favorably with those of last year, when the company reported $12 per share after taxes. The only drawback to the situation is the scarcity of tonnage, which delays the movement of the sugar to this country and, consequently, the realization of profits in cash. It can, of course, however, be only a question of a few months until this is accomplished.

The Punta Alegre begins the new crop year in strong position, physically and financially. The construction program at its three properties has been virtually completed, and these are now equipped to produce in excess of what was actually realized this year. Financially, the company will be well-off. From the profits of the current year and the proceeds of the new stock issue, the treasury will start the new crop year with much more cash on hand than the company ever had before. The preferred stock will have been retired, leaving less than $4,500,000 of bonds ahead of the stock, and with some tendency to convert these at current prices.

As to the outlook for sugar, opinions vary, but the fact seems to be that, in spite of a record-breaking output from Cuba, the production of sugar throughout the world is about 2,000,000 tons less than it was before the war. With Europe an importer rather than an exporter, and with this country going "dry" the first of next month, the majority look for very satisfactory prices.

INTERNATIONAL MERCANTILE MARINE.—Opposition to the proposed sale by Mercantile Marine of its English tonnage and assets has developed in most substantial quarters. The meeting of

stockholders at which the plan will be accepted or rejected, will be held next Monday, June 16. It requires a majority vote to approve the sale and a two-thirds vote to authorize liquidation. There is danger in this arrangement, because if sale is voted and liquidation rejected, stockholders would find themselves in a very involved situation.

There is a very general agreement in the financial community that Marine common will be worth more with the business continued than as if it were liquidated. For one thing, International Mercantile Marine has in its system over $60,000,000 of free cash or securities, in which cash has been invested. Even if the 57% in accrued preferred dividends were paid in one instalment this cash total would still approximate $30,000,000. However, if the plan of sale fails it is most improbable that the 57% will be paid in one instalment and it is conceivable that it would be paid in part at least in new stock issued to cover new steamers purchased with free treasury assets.

Broadly speaking, therefore, Marine common if the company continues in business will get the advantage of the present earning power plus the increment that would develop through the use of some $40,000,000 or $50,000,000 of money not at present invested in the steamship business.

It is interesting to note that Mercantile Marine's earnings for the first four months of 1919 showed a decided improvement over the results for either 1917 or 1918. It is officially estimated that the combined net earnings of the system for this year will run 25 to 50% ahead of the average earnings of the two years 1917 and 1918. The average profits of those two years were $11,832,308. This was after deduction of all operating expenses, interest and depreciation. These figures represent the net earnings of all steamships, whereas the statement of income contained in the annual report shows only the dividends of the Frederick Leyland Company and other partly owned companies. To that extent the Marine income account shows a smaller net than the combined income statement of all companies.

On the basis of a 25% increase in earnings for 1919, it is estimated that Mercantile Marine will earn 18% on its $49,872,000 common. On the basis of a 50% increase and an allowance of $3,000,000 for the earnings of the partly owned companies, it is estimated that Marine will earn over $23 a share. These profits would compare with a balance for the common in 1918 of about 13%. In other words, Marine has a fair chance of showing an increase of 50 to 100% in the balance of common stock earnings in 1919.

NEW YORK CENTRAL.—Under the Government guarantee, the New York Central Railroad is entitled to an annual compensation of $55,802,630. Other income amounted to $13,474,214, and interest, rentals, and taxes consumed $44,805,575, leaving a balance of $24,465,345 available for dividends on the $249,597,355 of capital stock, or the equivalent of $9.80 per share. The Railroad Administration, however, required the deduction of $6,548,223, from the final net income on account of expenses accrued prior to January 1, 1918, when the property passed into the control of the Government. This item is not properly chargeable, at least in its entirety, against the 1918 income, but its deduction reduces the balance for the stock to $7.19 per share. Even this latter figure provides a good margin over and above the $5 dividend requirement, so that as long as Government control continues, probably for the balance of this year, the dividend is amply secured.

In 1917, the last year of private operation, the New York Central earned $10.25 per share for its stock. According to the reports filed with the Interstate Commerce Commission, the net operating income, after hire of equipment and joint facility rents for 1918, was $48,291,878, as compared with $54,451,536 in 1917, and a federal compensation of $55,802,630. The difference between the federal compensation and the 1918 net operating income is just about $7,500,000, or the equivalent of $3 a share on the outstanding stock. It would appear that on its own operations, with no Government interference whatever, the New York Central would have been able to show share earnings of about $6.80.

During the current year earnings are not showing up so well. For the first four months of 1919 net operating income totalled $6,639,852, as against $7,449,099 for the same period in 1918. This decrease of $1,800,000, while disappointing, would not ordinarily appear alarming except for the fact that the first four months of last year were particularly unsatisfactory on account of weather and fuel conditions. Furthermore, the 1918 earnings were made on the old scale of passenger and freight rates, while this year the big increases granted last summer have been in effect. In 1918, the profits of the summer and early fall months took a decided jump as a result of these rate advances, and thereby offset the poor figures of the first part of the period. This year there is not likely to be any such offset, and the present indications are that the New York Central has joined the ever-increasing number of roads that are not now earning their dividends on their own operations.

CUBA CANE SUGAR.—Cuba Cane Sugar has now practically completed its active grinding season with a production up to June 10 of 4,228,000 bags. This output compares with the three previous years as follows:—

	1919	1918	1917	1916
Bags sugar produced	4,228,000	3,613,325	3,621,621	3,174,168

This output represents an increase of 614,675 bags, or 17% over the previous year. One especially notable feature of this production is the fact that it exceeds the maximum estimates which were included in the annual statement for the September 30, 1918, fiscal year. At that time President Rionda estimated

that Cuba Cane in the 1919 grinding season should output between 4,000,000 and 4,200,000 bags of sugar. The higher figure has already been slightly exceeded and with 5 or 7 out of 17 mills still grinding, it is probable that the actual out-turn for the 1919 year will reach 4,250,000 bags. Rainy weather has set in and is fast putting an end to grinding operations.

Obviously the practical bearing of production figures is intimately tied to the question of profits.

The poignant disappointment created by the 1918 statement when net profits for dividends of but $4,126,424 were disclosed against $7,315,017 in 1917 and $12,179,012 in 1916 is still so recent as to be readily recalled.

Enough is known, however, of 1919 prospects to warrant the statement that net profits will show a very large and satisfactory gain over 1918 and should come close to equalling the best previous year the company has had—1916—when a balance of $12,179,012 was earned for dividends on the $50,000,000 preferred.

The effect of the satisfactory earning results of 1919 upon the financing plans of Cuba Cane cannot as yet be stated with entire precision. It is safe to say, however, that by September 30 the company will have corrected the deficit of working capital which existed on September 30, when quick liabilities exceeded quick assets by $2,835,580. It seems fairly obvious that if Cuba Cane actually undertakes any new financing either for the purpose of increasing working capital or providing funds for 1920 construction, the amount will be very radically less than the $25,000,000 mortgage bond issue that was being considered in February. It has been stated several times lately in the financial district that Cuba Cane had definitely abandoned any financing plans. This is too optimistic an assertion. The company is, however, very clearly in the position where the urgency of new financing has passed. The company can take its own time and if 1920 promises another brilliant sugar year as many believe, Cuba Cane can conceivably retrieve its financial position without more than a very moderate amount of financing, say an issue of serial notes.

BUTTE & SUPERIOR.—On Monday, June 2, 1919, the Supreme Court of the United States, through Mr. Justice Clarke, delivered a decision of great interest to, and of far reaching effect upon, the mining industry of this country, in the case of Minerals Separation, Limited, et al., vs. Butte & Superior Mining Company.

The original action was begun in the District Court of the United States for the District of Montana by the Minerals Separation to recover damages against the Mining Company under the claim that the method of ore treatment used by the latter infringed a certain patented process belonging to the former, commonly known as the "Agitation Froth Process," by which, through the use of a critical or small quantity of oil having a preferential affinity therefor, the metalliferous matter in the ores is gathered in a froth, floated off upon the surface and then separated for further treatment.

The Mining Company denied that it was using the patented process. The District Court held that the use of any quantity of oil constituted infringement. The Ninth Circuit Court of Appeals reversed this judgment of the District Court, holding that the use of oil in quantities of more than one-half of 1% of the weight of ore did not constitute infringement of the patent.

Two large questions were before the Supreme Court.

Upon the first question Minerals Separation claimed, and the District Court held, that its patent covered the use of oil in quantities above 1% on the weight of the ore. The Supreme Court ruled that the patent protected only the use of the oils in quantity below 1% of the weight of the ore, and that any process using 1% or more was a free, and not an infringing process.

On the second question, Minerals Separation claimed that cheap petroleum oils were not the oils of the patent and that when a mixture of oil, composed of petroleum and vegetable oils, was used, the petroleum constituent of the mixture should be disregarded in determining the amount of oil actually used. The Supreme Court ruled that no distinction could be made between petroleum and other oils, and that any oil, or mixture of oils, having a preferential affinity for metalliferous matter is the oil of the patent and must be taken into account under all circumstances in figuring the percentage of oil used.

The management of the Butte & Superior Mining Company, when interviewed, stated that its operations can be, and are now being, conducted with the use of more than 1% of oil, with results in no substantial degree less satisfactory than those of its previous operations, other than the slight additional cost for the extra quantities of cheap oils required for the conduct of the operations.

The Butte & Superior Mining Company states it is prepared to continue the use of these permissible quantities of oil until the expiration of the patent in November, 1923, (after which time the use of the process with any quantity of oil will be free and open to the public), or to adopt one of the more economical methods now coming into use.

NATIONAL ENAMELING & STAMPING.—Earnings of National Enameling & Stamping since its new fiscal year started on January 1 have been running at a rate in excess of any previous twelve-month in its history, with the single exception of 1917. In that period the company earned a balance for its $15,591,800 common of 23.4%. For the first 5 months of 1919 it is understood that net profits were at the rate of slightly better than 20% on the common after deduction of taxes, depreciation and a pro rata proportion of 7% dividends on the $8,546,600 preferred stock.

It requires $1,533,770 to pay dividends on the preferred and common stock and this amount was fully earned in the first 5 months.

National Enameling is proving more of a peace stock than at one time seemed probable. For one thing the company is definitely freed from European competition, which was perhaps the main contributing factor toward the mediocre earnings for the common up to the end of 1915. For two and probably three years to come Austrian and German competition will hardly be a factor in the National Enameling situation. After that it is, of course, a question of tariffs and cost of production.

The company has, however, greatly improved its plant efficiency and only last month concluded an arrangement by which it secured in consideration of the issuance of $1,250,000 of its own preferred 12,500 shares or $1,250,000 8% preferred stock of the St. Louis Coke & Chemical Co. With this preferred was given 12,500 of the Coke Co. common, the entire 25,000 shares representing a 25% interest in this coke producer.

Not very much has been said about this acquisition which is, however, a most important one. The St. Louis Coke Co. controls a process whereby the low grade Illinois coals not previously capable of being converted into coke can be turned into excellent quality coke. National Enameling has the right to control this process within a certain geographical area. This is a future source of earnings.

Immediately, however, National Enameling secures through this affiliation a supply of hot metal for its Granite City, Illinois, plant. The result should be a sharp reduction in operating costs.

National Enameling is a considerable steel producer, having annually 250,000 to 300,000 tons of steel for sale in the open market. The company for a year or more has been a good-sized producer of plates and it is understood is still producing plates nearly at capacity.

This company in the 3 years to December 31, 1918, earned 49.1% on its common, of which 10% was paid in dividends. If 20% is earned in 1919 it would mean in 4 years common share profits of nearly 70% of which 54% would have been returned to plant or working capital.

National Enameling is in position where an increase in the common dividend above the present 6% could be ordered, but such action will probably have to wait until 1920.

MISSOURI PACIFIC.—In its first year of operations, the reorganized Missouri Pacific R. R. in 1917 earned a balance of 6.49% on its $82,839,500 of common stock after allowing for the unpaid 5% dividends on the $71,800,100 of preferred stock.

On January 1, 1918, the Government assumed the operation of the system, agreeing to pay as annual compensation the average net operating income, after allowing for hire of equipment and joint facility rents, of the three years ended June 30, 1917. During most of this period the Missouri Pacific was in receivers' hands and many improvements were being made which in 1917 had an effect upon the revenue, but which at the time were totally non-productive. On this account the management sought an additional annual compensation of $4,400,000, but without success.

The rental fixed by the Railroad Administration amounted to $14,206,814. On this basis, after adding other income and deducting charges, there remained a balance of $4,323,483, or the equivalent of .88% on the common stock. There was charged to income during the year $2,472,531 for expenses accrued prior to January 1, 1918, about half of which would not ordinarily have been charged against the 1918 revenue. Consequently, it would seem as though after making all proper charges there would remain nothing for the common stock and only about 4.4% for the preferred.

The actual net operating income for 1918, with which the federal compensation is comparable, amounted to $11,821,977, so that there was a deficit to the Government from its operations of the Missouri Pacific of $2,384,837. If dependent on its own resources, therefore, with no Government guarantee, the company would have been able to show only about 1% earned for its preferred stock last year. The preferred issue became cumulative on June 30, 1918, so that there is now approximately 5% of accumulated dividends remaining unpaid.

It is rather interesting to note that on December 31 last, the Missouri Pacific held in its treasury 115,550 shares of Texas & Pacific Railway stock, as against 65,550 shares twelve months previously. This stock is now worth approximately $5,800,000 and shows an appreciation of over $2,000,000 since the first of the year.

HUPP MOTOR CORPORATION.—One of the smaller motor companies which is just getting into its production and earning stride is the Hupp Motor Car Corporation.

The company is now producing at the rate of 18,000 cars per annum. For all of 1919 it should make 15,000 cars, against 9,600 in 1918. There is, of course, an active demand for every car that can be produced.

The June 30, 1918, fiscal year showed net profits of $836,691. Current net is running at the rate of more than double this figure, or say close to $3 per share on the 519,000 shares of common after allowance for dividends on the $1,307,900 7% preferred.

Hupp Motor owes no money, has close to $2,500,000 of working capital, or $1,200,000 above the part of its preferred. Asset value of the common is about $7.50 per share on its par of $10.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 810 June 20, 1919

THE GENERAL MARKET.—If one had any doubts as to the tremendous expansive forces behind this market, they should have been dispelled by the events of the past ten days. Continued for weeks beyond the point where a reaction had been expected by experienced operators, the advance was finally brought to a halt by probably the only thing that could stop it, viz.: a temporary refusal to loan money to buy stocks except at practically prohibitive rates. This very stringency quickly provided its own cure. Whatever opinion one may hold as to the necessity or advisability of putting the brakes on the money market, there is no question but that the technical position of the stock market has been much improved by the break. The point of the episode, as we see it, is that there never would have been such a rebound unless the forces behind the market were distinctly genuine. We believe this experience is going to create much greater confindence in the market's ultimate constructive capacity.

As a matter of fact, the majority of stocks are not excessively high on any basis of comparison. They are not high when compared with their asset value; they are still cheaper when compared with their replacement value, while when they are compared with the price of commodities, they seem ridiculously cheap. There is, however, a fallacy to the last argument, we think. The price of stocks, in the long run, is determined by earning power. If companies earned say three times their normal amounts when their product was at three times its normal price, stocks would, indeed, be still on the bargain counter, but this, of course, is not the case. On the contrary, the demands of labor are so excessive as to be positively discouraging in several lines of industry, notably the building trade, and when the tide turns the other way, it will be difficult for a time, until the readjustment is completed, to avoid actual losses.

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This, however, is looking far beyond anything that is likely to affect the market in the near future. Today, the volume of business in most lines is large and growing; the margin of profit fairly satisfactory. Some lines have, apparently, reached capacity, but this is not at all true of others, notably steel and copper. It would, consequently, seem as though, marketwise, there remained the most to discount in these stocks. For the last two or three weeks we have been a little fearful, as the pace seemed to us too swift to last. The reaction of the past week has done much, however, to clear the atmosphere. The definite steps being taken toward the financing of foreign purchases is a most encouraging development. If we are to loan Europe money or credit, to purchase our goods on a 5% basis, it can mean only higher prices for securities.

Our confidence in the market has been largely restored. The last week's experience, however, has demonstrated, however, that stocks can react, and there is, evidently, no disposition to furnish unlimited capital for market speculation.

We have an idea that the upward movement will be held in check until the money situation is somewhat easier, but one can at least take the position of buying on the reactions with a good deal of confidence.

THE EQUIPMENT OUTLOOK.—The leaders of the equipment industry of the United States are generally confident of a big buying movement following the signing of the peace treaty. Such a buying movement would very naturally be predicated on the extension by this country of huge foreign credits.

It is impossible to read even in a cursory way the accounts of European conditions without being impressed by the constant reference to lack of adequate railroad equipment. There is not a nation in Europe today which is not 25 to 40% short of a normal condition in its railroad equipment.

Some of this business is certain to come to the United States and for two very good reasons. In the first place the European car and locomotive building plants have been sadly damaged or disarranged by the strain of war conditions. The English car and locomotive plants are an exception to the rule, but these British plants are today booked 12 to 14 months ahead, in considerable part on orders from British colonial possessions.

The only big equipment building market to which Europe and the rest of the world can come today is the United States.

A second factor which will lead to the taking of equipment orders by American manufacturers is that Europe can buy only through credits created in this country. To the extent that American production of cars and locomotives is financed by American credit orders would seem to be reasonably certain.

Another feature which may be expected to have great weight is the fact that railroad equipment can today be produced as cheaply in the United States as in any European country. This condition is likely to continue for several years and should logically attract buying from Asia and South America. Such buying at the moment may be held back by ocean tonnage conditions, but it is a factor that in time should count in a most substantial way.

The American equipment industry has for so many years been so intensely provincial that it cannot be expected all in a minute to catch an international viewpoint.

But all the equipment producers have fair-sized export orders on their books at present. American Locomotive and American Car & Foundry have perhaps gone as far in this direction as any of the others.

In fact, as its situation lines up today American Car & Foundry has at present enough orders on its books to keep its plants busy until nearly the first of next year.

This company closed the most successful year in its history on April 30 and the balance of net for the $30,000,000 common exceeded even the 30.6% earned in the April 30, 1918, year. American Car & Foundry is now paying 8% in dividends and has a reserve (invested in Liberty Bonds) equal to 3 years dividends at the 8% rate. The common would, therefore, seem to be assured of a minimum of 8% for the 4 years to April 30, 1923, inasmuch as the current fiscal year with the big volume of unfilled orders carried over from April 30 is practically certain to show the common dividend several times earned. In other words, Car Foundry is assured that it will not have to touch the reserve fund until 1920 at the earliest and not then if export orders develop as now seems probable.

CHILE COPPER.—Although Chile's cost of production is still high, it has the distinction of being one of the very few companies, in fact, the only important company that we recall whose cost was less in 1918 than in the previous year. In 1918, the total cost was just under 18 cents per pound; in 1917, just under 20 cents. The actual operating cost, not including interest for 1918, was 15.3 cents; in 1917, 16.10 cents. One encouraging item was the reduction in the delivery and selling cost, from 3.3 cents to 2.2 cents. The reduction process continues to show satisfactory results, the recovery last year being 82.4% In the leaching division a recovery in November of 91% obtained. The company, as yet, has evidently not reached its better character of ore, as the tonnage treated in the last year averaged but 1.64% copper, while the grade of its total ore body is 2.12%.

Chile's actual cost of producing copper at the plant, including depreciation, in 1918, was just under 12 cents per pound. Apparently, the depreciation charge was $2,932,000. While this is only 3% on its property value, it is, perhaps, sufficient. This would make an actual cost of production at the plant before depreciation of just under 9 cents. To this, however, must be added an interest charge equivalent to about 2½ cents per pound. It would appear that Chile is working into a position where, with a more normal freight cost, it should be able to show a satisfactory profit on the present price of the metal.

The essential thing, however, for this enterprise is a production in proportion to the capitalization. With an output of even 100,000,000 pounds of copper, which the company secured last year, it could hardly hope to make any large showing per share. In order to do this, it would have to treble its present rate of production—an undertaking of enormous proportion.

It has, however, in its great ore body of 700,000,000 tons, a basis that would warrant operations on any scale, and without question it is only a matter of time when such a figure will be reached.

Financially, the company shows a much improved position—with net quick assets of nearly $22,000,000, as against less than $14,000,000 at the close of the previous year.

As a matter of record, the operations the last three years have been as follows:—

	1918	1917	1916
Tons ore treated	3,745,248	2,904,191	1,742,748
Pounds ref. copper	27.2	30.4	24
Pounds copper produced	102,136,758	88,370,188	41,305,477
Pounds copper sold	84,695,299	71,636,989	41,305,477
Total cost	*17.885c.	*19.92c.	*17.3c.
Profit before depletion	$5,754,253	$5,440,612	$1,936,392
Profit per share	$1.50	$1.43	51c.

*Including taxes, depreciation and depletion, but before interest.

NATIONAL ANILINE & CHEMICAL COMPANY.—The recent sharp trade revival in the textile industry has most naturally had its counterpart in increasing sales by the country's largest dye producer, the National Aniline & Chemical Company.

This company was rather heavily capitalized when it was incorporated early in 1917. It was given a capitalization of $23,524,700 preferred stock and 395,000 shares of common of no par value. The preferred largely represents working capital, however, the net quick assets of approximately $20,000,000 at the close of 1918 being equal to $85 per share on the senior stock. The working capital balance is growing at the rate of $1,500,000 per annum and by the close of 1919 should equal over $90 per share on the preferred.

National Aniline has yet to issue its first annual statement, which is one of several reasons why its shares have escaped more general attention. The figures for the December 31, 1918, fiscal year will appear very shortly and are expected to show a balance for dividends of about $4,100,000. This is net after deduction of nearly $9,000,000 for depreciation and Federal taxes. Such profits would leave $2,450,000 above the $1,646,000 required for 7% preferred dividends and would equal slightly over $6 per share on the common.

Despite a rather mediocre March quarter the recent revival in National Aniline sales has been encouraging enough to warrant the belief that final figures for 1919 will at least equal those of last year.

National Aniline produces about 50% of the gross value of dyes made in the United States. It makes over 250 different colors and is constantly increasing its variety. In fact, hardly a week passes that the company does not bring out some new color.

The control of National Aniline is held jointly by General Chemical Co., The Barrett Co., and the Semet-Solvay Co. The close affiliation with these three big chemical concerns gives National Aniline an assured source of the coal tar and acids from which colors are derived. Furthermore, it has given the company a management of marked ability and with the courage to do a great deal of pioneer work at a time when the dye industry was looked at askance.

The chief objection to National Aniline as an industrial proposition has lain in the fact that the company for several years to come will probably be dependent on adequate tariff protection. Fortunately the country as a whole seems alive to the desirability of maintaining and strengthening the dye industry created by the war. Directly and indirectly, $100,000,000 has been invested in the dye business of the United States. President Wilson has specifically recommended to Congress legislation that would protect this industry against Greman competition. If Congress acts favorably the status of National Aniline would seem to be pretty well fixed for several years to come.

NEW YORK AIR BRAKE COMPANY.—If New York Air Brake arranges its settlement with the Government with the expedition which now seems probable the current fiscal year which ends December 31 next will compare favorably with either 1917 or 1918.

The ending of the war was considerable of a penalty to New York Air Brake, which had arranged its plants to take care of a very heavy production of shells, artillery limbers and other war products in 1919. In fact, New York Air Brake had been hardly two months in production of war materials when the armistice was signed on November 11. Before that the company had been 6 or 7 months getting its plants ready and equipped for a war production which promised very fair profits in 1919. Because of the peculiar hardship created by the early ending of the war the company would seem to be entitled to especially equitable consideration in the settlement of its war contracts.

It is believed that the final settlement will give the company sufficient cash to extinguish a present floating debt of about $3,500,000 with a cash surplus of several hundred thousand in addition.

Naturally the demand for airbrake equipment is not very keen at present. The last order taken by New York Air Brake from the railroad administration was for 35,000 sets. This order has not been completed. Work on this and certain foreign contracts is, however, sufficient to premit the air brake department to operate 4 days per week. Further orders from the railroad administration will naturally have to wait the placing of general equipment orders.

On the other hand, New York Air Brake has some prospect of being the recipient of fair-sized export orders, the placing of which is contingent upon the signing of peace.

The nub of the New York Air Brake situation would seem to be this:—

In 4 fiscal years to December 31, 1918, the company earned 134.5% on its $10,000,000 stock, of which 57½% was paid in dividends, while 77%, or $7,700,000 was retained in the business. Less than 33% of undivided net earnings were added to working capital, while the balance seems to have gone into fixed assets, including securities owned. This company has been more liberal with shareholders than any equipment producer.

As a result of diversion of over 66% of undivided earnings to fixed assets New York Air Brake finds itself with a somewhat larger plant equipment than is demanded by the size of its normal air brake production.

The company has, therefore, adopted the experiment of building a single model 6-ton truck to sell for slightly over $5,000. This truck will possess certain features the most important of which is the 3-point suspension principle which gives the truck floor an even balance, regardless of the slant of the road. These trucks should be on the market in July.

The company is also considering the production of an 18-horsepower tractor to sell for about $1,000. These tractors are now being tested and are expected to be in production in the late fall.

The argument for truck and tractor production is that this work can be handled with practically no new machinery and very little plant expense. It represents an experiment which it was felt would be made with a minimum of expense.

The 10% dividend in the meantime is being earned and will be continued.

CLEVELAND, CINCINNATI, CHICAGO & ST. LOUIS.—Ever since 1914 this company has made a surprisingly good showing of earnings. In 1913 and 1914 it failed to earn its bond interest by a total of about $4,330,000 and, of course, the 5% dividend on the $10,000,000 of preferred stock, which had been paid since 1891, with only a brief interruption in 1897, had to be passed. Beginning with 1915, however, there was a very decided improvement both in gross and net revenue. The balance earned for the $47,027,200 of common stock, after allowing for preferred dividends, amounted to 6.15%, in 1916 to 16.59%, and in 1917 to 10.05%. Preferred dividends were resumed early in 1916, but even after these payments the company accumulated a surplus for the three years of about $16,000,000.

One of the noteworthy features of the company's development during this period was the marked increase in operating efficiency. Despite the handicap of generally higher costs for all materials and supplies, and

higher wages, the operating ratio for 1915 to 1917 inclusive, averaged only 70.3%, as against 77% for a preceding 7-year average. An additional example of efficiency may be found in the average train load which in 1917 came to 691 tons, as compared with 484 in 1913.

Beginning with 1918 the Government assumed the operation of the company's property, guaranteeing an annual compensation of $9,938,597. After making various additions for other income and deductions for fixed charges, the 1918 report shows a net corporate income of $3,120,363, the equivalent of 5.6% on the common stock, after allowing for preferred dividends. There was deducted, however, from the year's income $1,616,343 for expenses applicable to the period prior to January 1, 1918. If this item may be disregarded, the balance for the common would be just about 9%.

The Government compensation, however, is based on the average net income for the three years ended June 30, 1917. And the Big Four, unlike the majority of American railroads, continued to improve its earning position in 1918, making from practically every standpoint the best showing in its history. The actual net operating income, after allowing for equipment hire and joint facility rents, which corresponds to the Federal guarantee, amounted to $14,688,938. Using this figure as a basis, and making the same additions for other income and deductions for fixed charges as made to and from the Federal compensation, there would appear to remain a balance of about 19% as the actual earnings on the common stock for 1918. The total operating revenue amounted to $71,403,970, as compared with $52,650,920 in 1917, and while operating expenses showed a sizable advance, they did not by any means offset the gain in gross.

The operating ratio was held down to 72.68%, as compared to 72.39% in the preceding twelvemonth. In its operation of the Big Four, therefore, the Government made a profit of $4,750,000, and the company itself, after all deductions and preferred dividends, had a balance of nearly $2,500,000 to add to surplus, making a total of $18,500,000 reinvested in the property from earnings in the last four years.

So far this year, actual earnings have shown up very well. The net income for the four months to April 30 was $2,641,007, as against $2,895,129 for the same four months in 1918. Ordinarily, the first four months of the year produce about one-quarter of the year's net, so that it might be reasonable to figure an indicated net of at least $10,000,000. This would be equal to about 9% on the common stock, so that the Big Four would seem to be in a good position to face the proposed return of the railroads to private operation.

CHANDLER MOTOR.—The earning results of Chandler Motor Company in its December 31, 1919, fiscal year promise to exceed any former year in the company's history, even the high record year 1917, when the balance for the 70,000 shares of stock reached a total of $2,382,403, equal to 34.03%.

At present it looks very much as if Chandler Motor in 1919 would earn a balance for dividends of $40 per share.

If realized this would mean profits since the new company started business in 1916 of 129.9%.

Chandler Motor in the December 31 fiscal year produced 9,172 cars, compared with 17,000 in 1917 and 13,000 in 1916. This year a production of 20,000 cars was planned, but the final out-turn will probably run somewhat short of this amount. Needless to say the company has an immediate market for every car its factories can produce.

Chandler Motor is rather individualized among the motor shares by reason of the exceedingly simple nature of its capital structure. The company has no bonds, no preferred and only 70,000 shares of stock.

At the last declaration the stock was placed on a regular $16 basis. This action had been forecasted by payment of extras at the rate of $4 per annum in addition to the regular rate of $12 per share.

Chandler Motor is in the happy position that it can afford conservatively to deal in a liberal way with shareholders. The company should have by December 31 next a net working capital of $5,300,000, compared with $1,901,110 on December 31, 1915. Its expenditures for additional plant facilities are relatively modest and there is no present intention to enlarge capacity beyond the present 20,000 car production.

Under these conditions and facing the promise of another big year in 1920 it would not be surprising if later on stockholders received extras even above the regular 16% dividend.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 811 June 27, 1919

THE GENERAL MARKET.—Money rates have proved too high a wall for the stock market to jump over, though it keeps trying to do so. So long as this condition continues, not much is to be expected from the stock market, but we do not believe that this period of extreme tension will continue very long. It is, however, going to be a rather more difficult matter from now on to borrow money to buy stocks. Whenever the market shows a tendency to break away, this will be apt to act as a brake. Meantime, it is most gratifying to hear of improved operations in the steel industry; probably May will prove to have been the turning point. It is to be remembered that the market has discounted a very considerable improvement, but we do not think that it has anticipated the operations that may be expected before the end of the year. Perhaps the most clear-cut event of the week has been the rise in metals—copper and zinc. The statement has been made that, taking the world as a whole, there is a shortage in copper. This seems like a very bold statement in the face of the widely advertised surplus, yet we are not sure that it is so far from the truth: that is to say, if Central Europe and the users of copper in this country were to lay in a normal supply the surplus would very quickly be absorbed. This movement has already started and is rapidly gaining momentum. There is no longer any question but that actual consumption exceeds the present rate of production. It will not be long before we wake up to find that the surplus has disappeared and then the boot will be on the other foot with a vengeance.

It was an easy enough matter six months ago to order a 50% curtailment in production. It is going to be a mighty difficult matter to bring production back to 100%.

A disturbing feature was the passing by another large railroad system of its dividend, though—theoretically—this company was in receipt of a rental from the Government in excess of its dividend requirements. It again emphasizes the need of constructive action by Congress. The railroad question cannot be allowed to drift much further without affecting the whole industrial structure.

Until the tension has been relieved in the money market, the stock market will move within narrow limits. We still believe, however, that the tendency is on the upward side. Undoubtedly, many stocks have discounted all that may be expected from the companies that they represent during this period, but on the other hand, we should be surprised if this movement came to an end without a further demonstration in other classes, particularly in the steels and coppers.

HENDEE MANUFACTURING COMPANY.—Hendee Manufacturing Company is an important industrial concern whose earnings have been steadily expanding for three years. In the fiscal year to August 31 next this company promises to have the most successful 12 months in its history.

It is often the case with industrial companies that after their organization they pass through a period of transition and declining earnings, in which many of the expectations of the original organizers are apparently doomed to disappointment.

This has been precisely the experience of the Hendee Manufacturing Company. Incorporated in 1913, with $2,500,000 7% preferred and $10,000,000 common, the company in the August 31, 1913, year realized net profits of $1,308,475, equal to 12.7% on the common, after deduction of 7% preferred dividends. After 1913, however, there was a progressive decline in earning power culminating in the August 31, 1916, year, when profits of but $208,979 were realized against a requirement of $156,632 for preferred dividends.

But Hendee Company has had the courage to correct some of the obvious mistakes which were contributing factors in the decline in earning power and for both the 1917 and 1918 years showed a most substantial and satisfactory recovery in its net profits for dividends.

The current fiscal year, now 10 months concluded, has already yielded net results 50% larger than the $740,691 earned in the entire fiscal period to August 31, 1918. In fact, it is not improbable that as things are now running, Hendee Manufacturing, in the 12 months to August 31 will be able to realize a balance for its junior stock of between $11 and $12 a share.

The Hendee Company, with plants at Springfield, Mass., is the largest producer of motorcycles in the world. From 1913 to 1916 the company felt keenly the competition of low-priced automobiles. But the war has enormously energized the demand for individually controlled transportation. The danger that the glamour of the auto would drive the motorcycle out of business is materially less and if Hendee perfects commercially, as now seems likely, a low-priced motorcycle, its grip on a permanent niche in the transportation industry will be vastly strengthened. In fact, good judges believe that the light model

motorcycle which Hendee is about ready to put on the market is already an assured success and insures the company's future.

One of the satisfactory features of the Hendee situation has been the steady improvement in its working capital position, as is shown by the following comparison of working capital for each of the past five fiscal years:—

Working Capital Position.

	August 31 1818	August 31 1917	August 31 1916	August 31 1915	August 31 1914
Current assets	$4,587,509	$3,595,427	$2,917,907	$2,988,988	$2,758,417
Current liabilities	1,140,712	707,626	289,237	334,208	112,710
Working capital	$3,446,797	$2,887,801	$2,628,670	$2,654,780	$2,645,707

At the present time the company has outstanding $1,536,000 preferred, a reduction of $964,000 in the preferred stock issue since 1913.

It is understood that at the present time net quick assets exceed $4,000,000, so that the preferred stock is covered two and one-half times over by net quick assets, or in terms of the common the company could retire its preferred stock and still have left a balance of $2,500,000, or $25 a share in net quick assets for its $10,000,000 common stock.

Recently there has been some talk of a dividend on the $10,000,000 common stock. Such a development is bound to occur in time, but it will undoubtedly have to await the full commercial development of its low-priced motorcycle.

Meantime the company is steadily increasing the asset value of the common stock, which at the present time, on a basis of a conservative valuation for its plants, is not less than $45 a share.

AMERICAN CAR & FOUNDRY CO.—The statement of American Car & Foundry for its fiscal year to April 30 last is the most impressive in the entire history of the company.

It is not alone that the balance for the $30,000,000 common stock reached a new high level or that the treasury position is the best in the company's history, but rather the fact that an analysis of its condition demonstrates conclusively such fundamental strength and solidity, that given a reasonable volume of business, American Car & Foundry may now be said to have become a great industrial machine, capable of making extremely satisfactory profits for its shareholders.

In the late fiscal year ended April 30, the company's total net earnings of $17,273,172 were apparently only $811,000 larger than the year before, while the balance for dividends of $11,771,813, compared with $11,281,742 in the 1918 year. In other words, after deduction of 7% dividends on $30,000,000 preferred Car Foundry, in the 12 months just ended, earned $32.23 a share, compared to $30.60 a share in the 1918 year.

It is probable that there are few industrial companies which have paid relatively speaking so enormous Federal income and excess profit taxes as has American Car & Foundry. The reservation for taxes amounted to $24,475,000. In other words, Car Foundry actually earned a balance for its common stock before deductions of taxes, but after allowance of $5,501,358 for depreciation and $2,100,000 for preferred dividends of $34,146,813, a sum equal to $113.80 per share on the common.

Unfortunately, the 1918 annual statement to stockholders does not specificially show the amount set up for taxes. It is understood, however, that it was approximately $10,000,000, so that on a strictly comparatively basis, American Car & Foundry in the 1918 fiscal year earned $63.60 for its common before taxes, while in the 1919 year to April 30, the common stock balance increased $50 a share to $113.80. The $24,475,000 provided for taxes in the 1919 year is equal to better than $81 a share on the common stock.

In its past three fiscal years, Car Foundry has earned a balance for the common after all prior deductions, of $90.13 a share, of which $22.50 has been paid in dividends, leaving $67.63 a share, which has been returned to property. Of this $67.63 a share, representing approximately $20,289,000, $16,516,469, or 81%, has been added to working capital, while $3,773,000 has apparently gone into fixed assets, including additional plant. The following table shows concisely the course of earnings of American Car & Foundry during the past five years. The reasons for the poor earning record of 1915 and 1916 are, of course, so obvious as to hardly require explanation:—

Income Results

	1919	1918	1917	1916	1915
Total net	$17,273,172	$16,461,823	$17,522,909	$4,595,359	$3,615,053
Depreciation	5,501,358	5,180,080	7,212,037	1,779,341	1,284,117
Balance	11,771,813	11,281,742	10,310,872	2,816,018	2,330,936
Preferred dividends	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
Surplus for common	9,671,813	9,181,742	8,210,872	716,018	230,936
Equals per share	32.23	30.60	27.3	2.4	0.7

At the close of April last the American Car & Foundry Co. had an excess of current assets over current liabilities of $37,114,278, an increase of $4,439,799, or 13.5%, as compared with the end of the 1918 year and a gain of $15,790,034, or 74.0% since April 30, 1915. In short, Car Foundry on the 1st of May, out of its net quick assets, could have retired its entire $30,000,000 preferred stock at par and would have had left a balance of $7,114,278, or 23.71% per share on the common. Not until 1918 did Car Foundry have working capital equal to the par of its preferred stock. The development of working capital over the past five years is shown below:—

Working Capital

	1919	1918	1917	1916	1915
Current assets	$110,266,604	$60,441,298	$43,910,123	$35,070,238	$24,569,191
Current liabilities	73,152,326	27,766,819	17,350,941	14,472,429	3,244,947
Working capital	37,114,278	32,674,479	26,559,182	20,597,809	21,324,244

Of course it is obvious that the big earnings of 1918–1919 year were made possible by the fact that in addition to its regular equipment business American Car & Foundry was handling an enormous volume of special war production in behalf of the Federal Government. Practically all of the Government requirements of 6-inch and 10-inch gas and high explosive shells were furnished by the American Car & Foundry Co. This company also was the solitary producer of the specially designed railroad gun mounts used by the American army abroad for the larger size artillery. The production of caissons, limbers, battery escorts and supply wagons amounted to many millions of dollars.

It is a fact that the record which Car Foundry made in the production of special war apparatus elicited the warmest approval of both the army and navy departments and that American Car & Foundry was repeatedly used by both army and navy officials as the standard to which other companies producing war supplies should endeavor to confrom.

Car Foundry entered its 1918–1919 year with approximately $300,000,000 of unfilled orders. Practically speaking eight months of the late year witnessed an output at the rate of $300,000,000 per annum and four months at a lesser rate as war orders were naturally cancelled shortly after the signing of the armistice.

One of the significant and encouraging phases of the American Car & Foundry situation is the fact that it entered its new fiscal year on May 1 with $100,000,000 of unfilled orders on its books. This is sufficient to engage its plants at the present rate of production until close to the end of 1919, by which time it is confidently believed that there will be considerable bookings of export orders even though the domestic buying may be delayed until the status of the railroads is definitely determined.

In this connection the remarks of President Woodin to his stockholders are distinctly interesting. After calling attention to the fact that the greatest of the industrial problems remaining to be solved in this country is that of the railroads, he remarks:—

"It would seem as if the entire matter has been so thoroughly discussed from every viewpoint that it is ripe for final decision. At the heart of the problem lies the question, shall the 2,300 railroads of the country representing an investment of $17,000,000,000 be compelled to furnish their commodity, transportation, at a price which is not fundamentally based on the cost of production. It is a fact demonstrated by experience and not to be lost sight of that the power to make rates should not be entrusted to any body of men not held accountable for the adequacy of the rates made."

American Car & Foundry has been exceedingly fortunate during its war period that it has been officered and managed by a body of young and aggressive experts who have had the capacity to reap the advantage of the big production which the company was equipped to handle. It may be objected that war conditions have given Car Foundry its unusual prosperity of the last three years. One answer to this objection is that other companies attempting to handle precisely similar lines of production have in many cases either failed or made most mediocre records.

INTERNATIONAL HARVESTER.—Considering the big part it seems destined to play in helping restore the food equilibrium of the world, it appears a little singular that the financial community has so neglected the great speculative and investment possibilities of International Harvester. Without attempting to delve too deeply into the causes of this neglect it may be observed that International Harvester issues during the years when there were two companies have always been well distributed, stocks selling at a high price compared to their dividends.

Added to this is the fact that the investment public generally has never fully understood the importance of the consolidation last year of the International Harvester Co. of New Jersey and the International Harvester Corporation. This consolidation measured the settlement of a suit for dissolution under the Sherman law which had been pending since April 30, 1912. In August of last year an agreement was reached by virtue of which the two companies were granted permission to reunite. Under the terms, International Harvester was obligated to sell three of its lines of harvesting machines, together with the plants making them. The companies are also obliged to reduce their agents in any single community to one, this provision becoming operative after December 31 of this year.

As a result of this settlement the two companies voted to merge. In the merger, preferred shares were

exchanged par for par, while International Harvester of New Jersey common was given 1⅓ shares and International Harvester Corporation ⅔ of a share of common of the new company. As a result the present International Harvester Co. emerged with a capital identical with that of the two former companies. In other words, the present company has outstanding $60,000,000 of 7% cumulative preferred and $80,000,000 common, on which 6% dividends are now being paid.

International Harvester makes a strong appeal to the financial imagination of those who attach great weight to asset value and solidity of financial structure.

For example, the December 31, 1918, annual statement showed that International Harvester possessed a net working capital balance of $166,426,946, a sum equal to the par of the $60,000,000 preferred, with a surplus of $106,426,946, or $133.03 per share for the common. In other words, at existing prices for the common there is a value of only $10 per share, or $8,000,000 placed on a plant and physical asset system, which in 1918 produced an estimated $175,000,000 to $180,000,000 of gross business and which this year promises to output over $200,000,000 of farming equipment and binder twine.

Few people appreciate the vast scope of the company's operations, its control of raw materials and the world-wide nature of its selling field. For instance, International Harvester owns its iron mines with a capacity of 1,400,000 tons of iron ore per annum. It owns its own coal and coke works. It owns timber lands and saw mills, the latter having a capacity of 20,000,000 feet per annum. It produces 140,000 tons of binder twine yearly, while the two great Chicago plants, McCormick and Deering have a combined annual capacity of 675,000 binders, reapers, harvesters, mowers, rakes, threshers and other large equipment.

The balance sheet shows that funds in Europe worth at normal exchange rates $45,432,972 have been depreciated nearly 45% to $24,834,972. There is a very good chance that some of this $20,598,000 already charged off will be ultimately salvaged. If half were to be recovered the saving would amount to two years' dividends on the common stock.

A comparison of the combined income accounts of the two constituent companies shows a remarkable consistent growth in earning power over a series of years. For instance, in 1905 the net profits of the two companies, after deduction of interest, depreciation and other charges, amounted to $7,479,000. In 1913 these earnings had doubled to a total of $15,070,778. There was a sharp dip in earnings in 1914 and 1915, due, of course, to the demoralization of the foreign business of the International Harvester Corporation, which had exclusive control of the foreign business. However, in 1916 earnings had again crossed the 1913 mark and in 1917, for the first time in their history, the combined companies showed net income in excess of $20,000,000. The balance of $24,395,697 amounted to 25.2% on the $80,000,000 common, after deduction of 7% dividends on the $60,000,000 preferred. The 1918 year showed a further gain in net despite heavy charges for war taxes. The balance of $26,713,325 after interest, depreciation and other reserves, amounted to 28.1% on the common stock.

The prospects are very strong that International Harvester earnings in 1919 will reach a new high level. In some quarters it is predicted that net will amount to as much as $30,000,000, which in turn would be equivalent to better than $33 a share on the common stock.

Any discussion of the International Harvester situation is inadequate which fails to recognize that the prolongation of the dissolution suit for six years obviously tended to great conservatism in the handling of the company's financial affairs and also tended to hold down the return to common stockholders. It is a fair question if the day of moderate dividends on the common is not now approaching its close. Certainly with the tide of betterment beginning to rise in the foreign field, there would seem to be a reasonable basis for the belief that in the comparatively near future, International Harvester can afford to distribute more than a modest 6% dividend to its common stockholders.

MOHAWK MINING COMPANY.—Mohawk is generally spoken of as the cheapest producer of copper in the Lake Superior Region, and this statement is probably not far from the truth. At least, its cost per pound in 1915 and 1916 was the lowest of any of the Lake Companies, and as its rock, with one exception, has the highest copper content—greater than that even of the Calumet & Hecla—there is every reason to believe that its cost today is close to the lowest. Last year its cost was 14½ cents a pound, which, to be sure, did not include allowance for excess profit taxes, on which account $342,000 was paid for taxes on 1917 income, but, on the other hand, did include 2 cents a pound as the charge for ore depletion—not a direct operating cost. One would, therefore, approximately offset the other.

Allowing for a production of 1,000,000 pounds in June, Mohawk will have produced in the first 6 months of this year approximately 7,000,000 pounds, or at the rate of 14,000,000 pounds a year. This compares with 15,000,000 in 1918, and with 15,883,000 in 1915, its year of record production. Its cost has, therefore, presumably been close to that of former years.

With copper at 18½ cents a pound, it would seem a fair presumption that this company may be clearing a profit of 5 cents a pound or, say, at the rate of $7.50 a share on the stock. The recent advance from the low point of the year, of over $20 a share, would seem to indicate that no fear is felt of its ability to maintain a fair rate of distribution. In spite of the fact that the company has paid out in the last three years $53.50 per share in dividends, it was at the close of the year in a strong treasury position, with net quick assets of over $2,200,000, of which more than $1,700,000 was in cash or its equivalent.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 813 July 11, 1919

THE GENERAL MARKET.—If there is one item that, more than any other, can be taken as a criterion of the market's condition and that should be always watched most carefully as affording the surest danger signal, it is brokers' loans. It is probably safe to say that there has never been a time that these have reached an excessive amount that they did not mark the culmination of an expansion movement. We believe that this principle will hold good in the present instance. Today these loans are generally figured at one and one-half billion dollars, as against one billion six months ago. On the basis of any past precedent, they would be considered excessive. There is, however, this to be said: that past standards afford no accurate measure in this particular any more than they do in anything else. In the same proportion that the wealth and income of the nation exceed any previous figures, it must be expected that these loans will exceed any previous high water mark; that is, while the principle holds good, it must be applied with some regard to changed conditions. While the large increase of the last six months causes some reflection, we doubt if the figure has yet been reached that should be regarded as a positive danger mark.

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It must be remembered that every possible measure is being taken by the central money agencies to put the brakes on inflation and conserve resources. The treatment of Victory Loan payments as contrasted with those of the previous loans is a case in point. No more money is being left available for stock market borrowing than is possible. This policy is unquestionably a wise one; if it cannot entirely stem the tide of inflation that present conditions engender, it will at least tend to prevent serious excesses.

Meantime, business is rapidly catching up with the market. This is particularly true of the steel and metal trade. Probably the statement of the unfilled Steel Corporation published this week is better than almost anyone anticipated; in fact, new business is coming in so rapidly in some instances as to be almost embarrassing, considering the labor situation.

Copper has gained another full cent since our last letter, yet it is still far out of line with other commodities. It will be interesting to note whether the lifting of the German blockade will have the anticipated effect.

The further fall in English exchange is unfortunate from our standpoint. The tendency will be to supply this market from other sources where the penalty is not so great. In this connection our exporting of gold is significant. There is nothing whatever about this that should be considered disturbing. If we have really become the financial center of the world, as we are so fond of asserting, we must be prepared to establish a free market for gold as England has done for so many years. The gold exports are, indeed, in a small way, a sign of our financial supremacy. We must be prepared to see these greatly expanded.

Stocks have had a large advance, and one cannot take the unconditionally bullish standpoint that one could six months ago. We may say, frankly, that the feature that gives us the most concern is not so much the advance in the general market as the one we mentioned last week—the tremendous issue of new securities. Most of these are being taken, not by people who have any real interest in the properties or intend to stay with them, but are being bought with borrowed money in the anticipation of being able to sell to others at a higher price. Ultimately, this is where disaster is most likely to start.

As to the standard issues, however, while realizing that these are not as cheap as formerly, there are comparatively few issues that are yet selling at anything like their intrinsic value. Many are not even selling for as much as has been reinvested in the property during the war period. Until this limit has been reached, and brokers' loans have touched a still higher level, we do not believe that stocks can be said to be inflated to the danger point.

PUNTA ALEGRE SUGAR.—The Florida and Trinidad plantations closed their grinding season about a month ago; Florida, with an output of 264,000 bags, against a pre-season estimate of 250,000, and against a production in 1917–18 of 145,000; Trinidad, with a production of 114,000 bags, as against an estimate of 100,000 and a production in the previous year of 81,000.

Up to that time, the Punta Alegre plantation had produced 217,000 bags, making a total for the three plantations of just under 600,000 bags, as against 442,000 in the previous year.

The Punta Alegre plantation has been prevented during the year by unusual and excessive rains from producing quite as much sugar as had been expected. There is, however, a very large stand of cane uncut on this property and grinding has now been resumed. It is not at all impossible that, with reasonably decent weather, this plantation will add 25,000 bags, the proceeds of which will be credited to the 1919–20 fiscal year.

Up to the close of the 1917–18 fiscal year, the Punta Alegre Company had reinvested all its profits in fixed assets, continuing to borrow its seasonal requirements at the banks. This is quite a usual practice in the sugar industry as these borrowings are each year liquidated with the sale of the crop, thus differing sharply from the ordinary manufacturing practice.

While there is always an opportunity in a growing proposition of this kind to spend money advantageously, the company has saved a considerable part of its profits this year for working capital, and the 1919 report will show a gain in this item at the close of the fiscal year of about $1,000,000, necessitating correspondingly less borrowings for the dead season against the 1920 crop.

ASSOCIATED OIL COMPANY.—A Pacific coast oil property which has been making a very strong showing of earnings during the past 3 years and which in 1919 promises to exceed any former record is the Associated Oil Company of California.

This company has been a producer of California oil for nearly 17 years, but its stock which has been steadily climbing in price during the past 14 months has never had a wide degree of speculative popularity.

Associated Oil had outstanding on December 31, 1918, the close of its fiscal year, $10,455,000 of 5% bonds and $39,960,704 stock of $100 par and all of one class. Possibly one reason why this stock has not been more in the speculative limelight is the fact that $20,069,000 or 50.2% is owned by the Southern Pacific Co. Whatever prejudice may be felt regarding some minority stocks does not properly attach to Associated Oil which is excellently managed and which has enjoyed very considerable collateral benefits by reason of its affiliation with Southern Pacific.

In the December 31, 1918 year Associated Oil earned a balance for its stock before income and excess profits taxes and before depreciation of $10,059,644, or $25.14 per share. There was, however, reserved for depreciation $2,672,398, while the income tax deduction amounted to $2,845,939, an increase of $2,636,979 as compared with the modest 1917 provision of $208,960. On the basis of net earnings for the stock before income and excess profits taxes and depreciation Associated Oil, therefore, earned $25.14 per share in 1918 compared with $16.65 in 1917.

The actual divisible surplus for the stock in the December 31 year was $4,541,307 or $11.43 per share. The course of profits in recent years together with the output of oil in barrels is shown in the following tabulation:—

	Net for Divs.	% on Common	Bbls. Oil Produced
1918	$4,541,307	11.43%	7,078,273
1917	3,841,788	9.67	7,478,520
1916	3,198,388	8.04	7,167,667
1915	1,918,004	4.83	5,400,729
1914	1,264,754	3.17	4,454,064

Net profits for 1919 are expected to show further substantial gain and with the half year ended a final stock balance of somewhat more than $15 per share after taxes and the same allowance for depreciation as in 1918 is indicated. These profits are three times the present $5 dividend which has prevailed for the past 2½ years and are sufficient to encourage the belief that by 1920 directors will feel warranted in making a larger distribution. The company has a very satisfactory working capital position, the December 31 balance sheet showing $7,398,120 of net quick assets after allowing for $2,823,952 of tax liabilities as a current liability.

Associated Oil is a fairly complete oil proposition. It owns 44,632 acres of producing oil lands in California and leases 9,852 acres on 20 year leases. It owns 536 miles of pipe lines which carry oil to seaboard. It owns also 28,000 tons of tankers, two refineries and operates distributing plants and service stations along the Pacific Coast, in Nevada, Arizona and the Hawaiian Islands.

The company is a persistent expansionist, 19 new wells being brought in last year.

Higher prices for oil have admittedly been of great assistance to Associated Oil which in 1913 and 1914 felt keenly the low selling range and glut of California oils. Steamship use of oil on the Pacific should, however, tend to hold prices of crude oil at a more satisfactory level and at the same time Associated Oil is increasing its refinery and gasoline absorption plant production.

PIERCE-ARROW.—Action of Pierce-Arrow directors in passing the $5 dividend on the 250,000 shares of common stock had been plainly forecasted for some months.

The common stock was placed on a dividend basis in August, 1917, so that the $5 distribution has prevailed for exactly two years.

Pierce-Arrow has been earning its common dividend and its suspension at this time is not to be construed as due to a deficiency of earning power or even a serious decline in net profits.

Pierce-Arrow did, however, throw its organization whole-heartedly into the government's war work. In the fiscal year to December 31, 1918, for example, 70% of the company's gross sales of $41,354,440 represented trucks or passenger cars designed for government service. In fact, in 1918 Pierce-Arrow made less than 1200 pleasure cars.

The ending of the war naturally left the company with its plant system somewhat out of balance. Its truck building facilities had been considerably expanded while the passenger car portion of its plants had been dormant or partly inactive.

Pierce-Arrow as a result has had to face a trying transition period which has been prolonged by the absence of a sharp revival in domestic orders for commercial trucks. The demand for passenger cars has at all times since the armistice been in excess of the capacity of the plants to make delivery. But even in the days of largest output Pierce-Arrow did not make much more than 2700 passengers cars in a year. The problem of building up passenger car production from 1200 to double that number has been a very difficult one. In fact it has been physically impossible to increase output as rapidly as had been hoped. It is obvious that the difference between an output of 1800 or 2000 cars and one of 2500 or 2700 means a very material sum substracted form the net profits of Pierce-Arrow.

At the end of December, 1918, Pierce-Arrow was borrowing $3,800,000 from the banks. This floating debt item has continued into 1919 and was one of the factors dictating the decision of directors to suspend dividends.

The company is, however, in good financial position despite the existence of some bank debt. Its working capital balance total is at present slightly over $13,000,000, a sum equal to the par of the $10,000,000 8% preferred with a surplus equivalent to $12 per share for the common.

At a time when automobile prosperity is so much to the fore the dividend lapse of Pierce-Arrow seems to strike a discordant note. It may be that the attempt to distribute trucks and pleasure cars through the same selling organization is something that will have to be changed. The two products really represent two separate businesses. It may be that this is the fundamental lesson which the Pierce-Arrow common dividend action teaches. Certain it is that the selling of trucks is today purely a commercial proposition. The selling of passenger cars is now and perhaps always will be a matter in which sentiment and individual caprice play a very considerable part.

UNITED FRUIT.—During the 9 months to June 30 net profits of United Fruit Co. before taxes were within $2,500,000 of the $24,830,041 earned in the entire fiscal 12 months to September 30, 1918.

The company has ahead of it the three summer months of July, August and September, in which further net profits sufficient to insure a balance of $28,000,000 to $30,000,000 may reasonably be expected.

As a matter of fact, United Fruit has changed the date of its fiscal year to December 31 to conform to the tax period. The 1919 annual report will, therefore, cover a 15-months' period and naturally will not be available to stockholders and the investment public until February or March of next year.

On the basis of a 12-months' comparison with the September 30, 1918, fiscal year, United Fruit ought to show a balance for its $50,316,500 stock of close to $40 per share, compared with $28 in 1918 and $26.7 in 1917. This is, of course, after interest, depreciation and tax reserves.

Although United Fruit shares have been definitely established on a 10% dividend basis, this does not measure the maximum that shareholders may expect. The September 30, 1918, profit and loss surplus of $35,040,000 will be at least $50,000,000 at the end of September this year and several millions more on December 31. In other words, a surplus of $100 to $110 per share.

Sooner or later, Fruit directors will distribute some form of extra dividend to shareholders, but such action will likely await the time when the question of taxation of stock dividends has been decided.

United Fruit will probably expend considerable money on its sugar properties this fall. The 1919 sugar profits will not differ greatly from the $3,500,000 earned in the 1918 year, but there is no reason why with certain mill improvements, particularly at Nipe, the sugar net for 1920 should not be $2,000,000 to $3,000,000 greater than in the year just ended.

AMERICAN LINSEED CO.—There is certainly nothing in the published record of American Linseed which would create any particular enthusiasm for its securities either preferred or common.

In fact, until 1916 the preferred had a most mediocre reputation and the common was hardly esteemed even a fair speculation.

American Linseed has no bonds and $16,750,000 each of preferred and common stock, figures which superficially seem grossly excessive on the basis of the meager information conveyed in the annual statements.

At the low point of 1916 these $33,500,000 of preferred and common stocks were selling in the market for $9,212,000. At current prices the stocks represent $30,150,000 of market selling price.

What lies behind this more than 200% appreciation?

So far as the preferred is concerned the inauguration of dividends at the full 7% rate in the 1918 year would explain a large part of its market appreciation. This issue is non-cumulative and from 1901 through 1916 paid no dividends whatever.

The simplest way to get a broad general appreciation of the American Linseed situation is to realize that the company's financial structure is such that the annual figures for the September 30 year give only a fragmentary picture of the company. In other words, a large part of American Linseed earnings have for some years been retained by subsidiary companies and do not appear at all in the published figures.

In the September 30, 1918, year, for example, it is understood that one subsidiary, the Nacoa Butter Co., earned over $2,600,000 net, and not a penny went into the parent treasury in the form of dividends. This $2,600,000 was equal to $16 per share additional on the $16,750,000 common, so that on the basis of actual results the common earned at least 22% instead of the 5.77% disclosed.

In its September 30, 1918, balance sheet, American Linseed showed inventories of $3,855,933 and advances to subsidiary companies for raw materials of $10,379,275. This latter was a brand new item

and being interpreted in trade terms meant that the American Linseed people had grasped the significance of the probable national shortage of flaxseed and had purchased as large stocks as they could require or dared to carry.

In August and September of last year linseed oil was selling at 92 to 95 cents per gallon. The $3,855,933 of inventories and $10,379,275 of advances to subsidiaries represented flaxseed or linseed oil taken not at 95 cents but at less than 50 cents per gallon.

For the past 10 months the price of linseed oil has been steadily climbing, until today it is not 95 cents, but $2.18 per gallon in car load lots. The effect of this advance upon American Linseed profits is too obvious to require comment. Even at the September 30, 1918, market prices, American Linseed had an inventory appreciation of millions, probably not less than $10,000,000. The actual selling price must have averaged well above $1 per gallon for linseed oil. In other words, American Linseed in the past 12 months has reaped a sensational profit through its prudence or foresight in acquiring relatively huge inventories of flaxseed. How much of this will show in the September 30 statement is another question. But American Linseed has in the last year reaped a harvest which, if shrewdly utilized, should change the entire future status of its preferred and common stocks.

SPECULATIVE POSSIBILITIES OF RAILROAD BONDS.—Prices of bonds, and particularly railroad bonds, have so far failed to participate to any extent in the tremendous market advance of the past few months. In view of the many uncertainties surrounding the railroad situation, it is perhaps not to be expected that there would be any great activity in railroad securities, although it is noticeable that railroad stocks, dull as they have been, have still enjoyed considerably more of an advance than the bonds.

As yet no material progress seems to have been made toward solving the railroad problem, although the time is rapidly approaching when some solution must be reached if, as has been semi-officially predicted, the roads are to be returned to private operation by the end of this year. It will, we believe, be generally agreed that if the gravest consequences to our whole industrial structure are to be avoided, any solution must provide for sufficient revenue to enable the railroads as a whole to earn not only their fixed charges, but also something for their stocks—in other words, a fair return on the actual investment. If such a fair return is permitted, well-secured railroad bonds will, undoubtedly, sell considerably higher in course of time.

For the past decade and more, the trend of railroad security prices has been steadily downward. Some very attractive yields may now be obtained on bonds, the interest on which has never been in serious question heretofore. We submit below a number of bonds which, at current prices, not only yield a high return from an investment standpoint, but also within a few years, at the most, might show a good speculative profit. As an indication of possible speculative profits, we have compared the present prices with the high prices of the 1915 to 1918 period, at which level no one, according to previous standards, would have considered them unreasonably high:—

Bonds	Range 1915 to 1918 High	Range 1915 to 1918 Low	Present Price	Yield	Profit in Advance to High of 1915-1918
Baltimore & Ohio conv. 4½s, 1933	98⅝	69½	76	7.05%	22
Chesapeake & Ohio conv. 4½s, 1930	90	65½	82	6.80	8
Chicago & Alton ref. 3s, 1949	62	50	50	7.00	12
Chicago Great Western 1st 4s, 1959	75	52	60	7.00	15
Rock Island ref. 4s, 1934	80¼	59¼	73	6.80	7
Chicago & West. Indiana cons. 4s, 1952	83¼	61⅞	64	6.66	19
St. Paul conv. 4½s, 1932	103¾	65½	77	7.30	26
Cleveland, Cincinnati, Chicago & St. Louis gen. 4s, 1993	83	56	69	5.90	14
Colorado & Southern ref. 4½s, 1935	90	66	80	6.50	10
Erie prior lien 4s, 1996	87¼	65	66	6.10	21
Erie gen. lien 4s, 1996	77	47½	55	7.55	22
Kansas City Southern ref. 5s, 1950	96	73¾	85	6.00	11
Missouri Pacific gen. 4s, 1975	68¼	52½	61	6.65	7
New York Central conv. deb. 6s, 1935	117⅞	87	99	6.05	18
New Haven conv. deb. 6s, 1948	117¾	80	81	7.50	36
Oregon Short Line 4s, 1929	94⅞	80½	86	5.80	8
Seaboard 1st ref. 4s, 1959	74¼	51½	57	7.25	17
St. Louis-San Francisco prior lien 4s, 1950	71⅛	55½	60	7.25	11
Southern Pacific conv. 4s, 1929	90⅜	75½	86	5.90	4
Southern Railway development 4s, 1956	77⅝	56¾	66	6.40	11
Union Pacific conv. 4s, 1927	96	81½	88	5.80	8
Western Pacific 1st 5s, 1946	90	79¼	84	6.20	6

WALWORTH MANUFACTURING COMPANY in June took the largest orders of any month in its history.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 814 July 18, 1919

THE GENERAL MARKET.—We are entering on the final stages of a bull market. Everything tends to show this—the action of the market itself and developments in the industrial world. In the market we see an increasingly large turnover of stocks with great irregularity; violent uprises in some and equally violent declines in others—quite a different tone, if one will stop to think of it, from what prevailed up to a few weeks ago. We had seen, it is true, one or two sharp breaks on money stringency, but the market, to a certain extent, preserved an even tone; that is, some stocks were not strong, while others were weak, which is the case today. Industrially, it must be admitted that there are now a number of adverse factors. Chief of these is the labor situation; labor demands have now reached such a limit as not only to discourage new enterprises, but to threaten to eat up a large part of the profits from present operations. The persistent drop in foreign exchange threatens the continuation of exports, though this has reached such a pass that it seems as though some positive steps must soon be taken. Even these, however, can hardly but result in a further tightening of the stock market's credit. In this connection it is noteworthy that on account of the cheaper discount market in London, sterling exchange is already displacing dollar exchange in South America. Our bankers are scarcely yet educated to the world view. The continued output of new securities is a subject we have mentioned before, but without which any financial comment these days is scarcely complete. Technically, it is the worst feature of the market.

It is a demonstrated economic fact that recovery from war's devastation is always rapid. While it scarcely seems possible now, we believe Europe will be economically on its feet inside of two years. This means lower prices for farm products, and beginning with these we shall see a drop right down the line, ending with labor. In short, the exact reverse from conditions of today. We have yet to witness a rising stock market on a falling commodity market. This may seem like a very long view ahead, but it is well to bear this prospect in mind.

If there is one class of stocks that has not yet reached the point of dangerous inflation it is the Coppers; in fact, in spite of some advance, it is still true, generally speaking, that there is no inflation in these stocks. The metal has had a further advance of two cents per pound since last week. Before the end of the year we are likely to witness a repetition of the conditions that caused very much higher prices for these stocks in 1916, with this difference, however, that with current surplus replaced with scarcity, it is going to be a far more difficult matter to bring output up to normal figures than it was three years ago.

The railroads are again coming to the fore. The anxiety of all types of public men to do something is encouraging. The chances are that the measures enacted will not be sufficient. We should question the ability of the railroads to return to their former degree of prosperity if handed back to the mercies of the Interstate Commerce Commission, but until some action is taken, hope of relief will probably be sufficient to make for some advance. If really broad, constructive measures were taken, of which there is faint possibility, we should have a tremendous railroad security market.

Manufacturing concerns always make their largest margin of profit on high commodity prices. The earnings figures for the next six months should prove a pleasing contrast with those of the last six. This industrial activity and prosperity should continue another year, perhaps the better part of two. It is quite possible that this will bring earnings to a number of companies that have not yet been fully reflected in the price of their shares; in fact, there are a number that we have in mind of which we believe this to be true, but it is also a fact, we believe, that more and more are reaching their high points each day. Speaking in a broad way, there are quite a few stocks that are still worth buying, but as to the majority we believe it is well to take the attitude that further advances should be taken advantage of to liquidate.

ATLANTIC GULF & WEST INDIES STEAMSHIP LINES.—The Atlantic Gulf Oil Corporation, subsidiary, is making substantial progress with the development needed to insure production and sales. About 45 miles of 10-inch pipe are to be laid. All the pipe has been purchased and a considerable part is already in Mexico. The right of way has practically been cleared, and the pipe will begin to go into the ground very shortly. Present program contemplates erection of pumping stations, storage tanks, and completion of a sea-loading plant. It is also intended to build a 10,000-barrel topping plant at the coast terminal to handle a fraction of the crude coming down through the pipe line.

As the work is now progressing, there is no reason why the Atlantic Gulf Oil Corporation should not be getting oil to seaboard by January 1—possibly a few weeks earlier.

The present program, including the pipe line, contemplates the expenditure of just a little less than $3,500,000, all of which will be advanced by Atlantic Gulf and West Indies, which will take in payment

first mortgage 6% bonds. These bonds are protected by a 10% sinking fund, and will be all paid off in ten years.

Atlantic Gulf has now developed three large oil wells, of which two are on its southern oil tracts. One of these wells, which was only recently brought in, is one of the largest oil wells in Mexico.

Atlantic Gulf and West Indies' annual statement will shortly issue. Owing to the fact that no settlement has yet been made with the Railroad Administration for the seven and one-half months during which the coastwise lines were operated by the Director-General, or with the Shipping Board for operating the Government-owned ships, earnings for the common will probably show less than $20 per share after very heavy depreciation charges. The benefit of these uncollected earnings will be reflected in a later statement.

CALUMET & ARIZONA.—Calumet & Arizona has in its treasury nearly two shares of New Cornelia for every share of its own outstanding. With New Cornelia quoted at 25, this places a valuation on its Bisbee property of $30 per share. Not only this, but it had, at the close of 1918, $6,000,000 in cash and copper; $1,352,000 Liberty Bonds and other securities, and $2,500,000 of supplies and accounts receivable.

If these items are deducted from the remainder, it would place but a very low selling value on the mine itself.

The following will give a concise picture:—

	Total market valuation Calumet & Arizona		$51,400,000
	Market value New Cornelia holdings		30,750,000
			$20,650,000
	Investments at market	$3,184,000	
Dec. 31, 1918	Notes and accounts receivable	1,307,000	
	Supplies	1,273,000	
	Cash	3,681,000	
	Metals in process	2,484,000	
		$11,929,000	
	Less current liabilities	2,086,000	
	Net quick assets		9,843,000
	Selling price of mine		$10,807,000

Incidentally, this tabulation brings out the increase in the valuation of Calumet & Arizona's treasury holdings. Its 1,229,000 shares of New Cornelia are carried on its books at less than $4 per share, or $4,731,000, as against a present value of $25 per share, or $30,750,000. In this table also we have taken its holdings of Gadsden at market price. The 1917 report stated that this company had an option on 688,000 shares at par, which is $1. The 1918 report gives its holdings of Gadsden as $381,000. Hence it has evidently exercised its option on this amount of stock. This, however, today, is worth in the market about $1,300,000. If one wished to strain a point, it might be pointed out that, at current market prices, its equity in its option on the balance of 308,000 shares is worth $462,000.

Without going to this extreme, however, it will be noted from the above that the mine itself, without its treasury assets, is selling in the market for less than $11,000,000. This is a property that, as recently as 1916, produced 75,000,000 pounds of copper at a cost of 9 cents per pound. In 1915, its cost was 7½ cents. A normal margin of profit should mean at least 6 cents per pound to this company, or earnings on a production such as the mine has shown itself capable of, of $4,500,000, 40% on the selling value of the Bisbee mine itself.

In the first six months of this year, the Calumet & Arizona has produced 22,188,000 pounds, as against 25,405,000 in the same period of 1918.

This is a somewhat lower degree of curtailment than most of the other companies have practised, which should make it, perhaps, a somewhat less difficult matter for this company to resume full production.

ST. LOUIS-SAN FRANCISCO.—The junior securities of this company, particularly the adjustment and income bonds, and the common stock, have of late enjoyed considerable activity at rising prices. This is a reflection, no doubt, of the slowly growing confidence that some solution for the railroad problem in general will be found in the near future, and also of the belief that under private operation this road will be able to resume the progress which seemed to be so well under way in 1916 and 1917.

In the reorganization which took place in 1916, the bonded debt was scaled down approximately $30,000,000, the fixed charges reduced $5,700,000, and fixed and contingent charges reduced nearly $1,200,000. The contingent charges comprise interest on $38,761,693 6% adjustment bonds, which is cumulative, and interest on $35,192,000 6% income bonds which is non-cumulative. In 1916 the company earned the full interest on both these issues, the full 6% on the $7,500,000 of preferred stock, and had a balance left equivalent to 2.47% on the $50,447,026 of common stock. In 1917, the common share balance was increased to 4.75%.

Under Government control the company was entitled to a "standard return" of $13,472,571—recently increased from $13,316,571—which is sufficient to pay all charges and have a balance of $281,581, or $3.76 per share for the preferred stock. On its actual operations, however, for 1918, the company failed to earn its adjustment bond interest by $36,500, and after paying income bond interest had a deficit of $2,148,020 as compared with a surplus of $2,847,788 in 1917.

It is rather interesting to note that all of the 1918 deficit was accumulated in the first half of the year. Up to June 30 the deficit after all charges amounted to $3,982,138. In the second half year the company earned a surplus after all charges of $1,834,119, as a result of the higher rates put into effect in mid-summer. By 1919, however, the benefit of these new rates appears to have been largely offset by increased expenses. For the first five months of this year the company reports a net operating income of $3,587,508, as against $3,333,304 for the same period in 1918. It seems clear, therefore, that with no further rate advances likely this year, the company will probably not make even as good a showing as last year.

Nevertheless, any railroad policy to be at all adequate to the needs of the country must permit the railroads to be self-supporting. And in view of the good results obtained during the last two years of private operation there is ground for optimism regarding the future of the Frisco once it returns to private control. The company operates throughout a rich agricultural country and a considerable part of the southwestern oil districts and in addition has an interest in land companies which are believed to have valuable oil resources.

PACIFIC DEVELOPMENT.—The annual report of the Pacific Development Corporation for its fiscal year to December 31, 1918, is in almost every respect a most satisfactory document. The balance of net profits of $1,736,905 is $510,000, or 41% larger than the year before, and compares with the three previous years as follows:—

	1918	1917	1916	1915
Net profits	$1,736,905	$1,226,624	$996,475	$550,328

These earnings of $1,737,000 apply directly to the present 115,000 shares outstanding, and are equal to $15, or 30% per share. On the average amount outstanding during the year, the earnings were equal to 35%. Out of this $15 per share, $3.50 was paid in dividends, leaving a balance of $11.50 per share reinvested in the business.

The December 31, 1918, asset value of the stock was $77.68 per share, of which $47 per share is represented by quick assets.

As the situation now lines up, Pacific Development should have an asset value by the end of 1919 of close to $90 per share, based, of course, on the present number of shares.

The excellent results of 1918 were very largely due to the great success of Pacific Commercial, the Philippine Island trading subsidiary. This company earned last year about $1,500,000, a large part of this profit being of an occasional nature, due to the rapid rise in price of certain goods it was handling. The 1919 net of Pacific Commercial will be materially less than $1,500,000. To balance this, however, the Andersen-Meyer subsidiary is having in China and Siberia a year of really remarkable results. This company has taken rank as the largest foreign engineering firm in China and it is one of the three or four largest American importing and business concerns in China. On April 1 this subsidiary had on its books orders for machinery and equipment in excess of $8,000,000.

The possibilities of attractive investment in this business are very large, particularly at this time, and to take advantage of these the company is about to raise additional capital by the issuance of one (1) share for three (3) at $50 per share, which will bring its total capitalization up to a little over 150,000 shares. It has no bonds or preferred stock.

The policy of Pacific Development has been to build up out of earnings. The present modest dividend of 7%, or $3.50 per share, will likely be continued for a time longer, but it is also obvious that with its present earning power and the promise for the future, Pacific Development must, in time, share its prosperity with shareholders.

SINCLAIR OIL.—It is rather interesting to compare the statement for the six months ended December 31, 1918, recently published, with that for the first quarter of 1919 that appeared about a month ago. The total net earnings for the last half of 1918 were $8,501,654, or at the rate of $17,000,000 a year, while those for the first quarter of 1919 were $3,384,363, which would be at the rate of $13,500,000 for the full year. The item of interest, taxes, etc., for the six months was $1,327,000. Now that the company has called in its notes, it will save the interest on these, which at one time was at the rate of $1,400,000 a year. It seems, therefore, as though $1,500,000 would be a fair allowance for this item for the full year. Deducting $4,000,000 for depreciation and $2,200,000 for depletion, amortization, etc., would leave a balance from the $13,500,000, the rate of earnings the first quarter year, of but $5,800,000. On the 1,400,000 shares now approximately outstanding with the conversion of notes, this would amount to about $3.50 per share.

It should be noted, however, that both statements show a large increase over the earnings of the corresponding period in the previous year; the earnings for the first quarter of 1919 show an increase of 70% and the balance after interest, but before taxes and amortization, show an increase of 97%.

The earnings for the six months ended December 31 were at the rate of $17,000,000 a year, while the actual earnings for the year ended June 30, 1918, were less than $12,000,000 and the final balance of $3,909,000 for the six months, which would be at the rate of $7,800,000 for the full year compare with $5,533,000 for the 12 months ended June 30, 1918.

Interest in this proposition, however, centers not so much in its record of past earnings, large as these have been, as in its plans for future expansion. It is stated, within the last two weeks, that this company proposes to bring its refining capacity, now 50,000 barrels per day, up to 100,000 barrels. Three new refineries are to be built in eastern centers, each with a capacity of 10,000 barrels per day. The company will own and control 7,000,000 acres of oil lands, 4,000 acres of pipe lines, 12 refineries and 4,000 tank cars.

Unquestionably, the possibilities of earnings from such a plant as this far exceed anything that the company has hitherto reported.

BETHLEHEM STEEL.—The shipbuilding end of this enterprise, as we had rather anticipated would be the case, has stood the company in very good stead during the period of readjustment; in fact the net earnings from this department during the last six months have actually exceeded those of the steel business.

The earnings from this source should be well maintained during the coming six months, while with the business now coming to hand, those from the steel division are apt to show 100% increase over the last six months.

Briefly, it appears probable that after making due allowance for taxes, this company will show for the full year earnings of at least $25 per share, and it is not at all impossible that the figure may run 50% in excess of this amount.

While the advance in the stock the last few weeks has been rapid, it is to be recalled that this is the same stock that, after recapitalization in 1917, sold at over $150 per share.

Up to the close of last year the company had reinvested in the property from its earnings the last four years the equivalent of $135 per share on the stock as it stands today, and we have reason to believe that this amount has been increased during the last six months by, perhaps, $12 per share.

CRUCIBLE STEEL.—In placing the common stock of this company on a 6% basis, the directors finally took the action which common stockholders have been looking forward to since the back dividends on the preferred shares were cleaned up almost two years ago. This action calls attention to one more example of the extraordinary prosperity enjoyed by the steel companies during the last three years, and in this instance particularly to the conservative manner in which these profits have been handled.

Incorporated in 1900, Crucible Steel, until the war, had not been a pronounced success. Although it had generally shown earnings somewhat in excess of the preferred dividend requirements, these had not always been met and, indeed, at the time the war broke out, there were approximately 25% in arrears.

It is only the record, therefore, of the last four years that is of immediate interest to the common shareholders. This, briefly, has been as follows:—

Years ended Aug. 31	Net Income	Earned on Com.	Surplus for Year	Working Capital
1918	$13,812,128	48.25%	$12,062,128	$25,845,307
1917	12,282,358	41.12	4,719,858	18,491,768
1916	13,223,655	45.89	11,098,651	17,225,681
1915	3,073,750	5.39	3,073,751	7,454,416
			$30,954,388	

It will be seen that in addition to paying up the preferred dividends, the company has reinvested in the business, approximately, $31,000,000, equal to $123 per share on the common stock. Of this amount, approximately $18,500,000 has gone into working capital and the balance into the expansion and improvement of plants.

While it may be a long time before Crucible Steel reports earnings equal to those of the last three years, it is also quite certain that it will never go back to its pre-war condition.

Incidentally, the declaration of a dividend at this time would indicate a considerable improvement in the financial position, as at the close of the 1918 fiscal year, the company had actual cash and cash assets on hand of but about $4,000,000, with an inventory of nearly $19,000,000, twice the amount it had on hand previously. Evidently, it has been able to turn a good part of this inventory into cash.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 815 July 25, 1919

THE GENERAL MARKET.—It is likely to be very shortly announced that definite steps have been taken for the stabilizing of foreign exchange. This step would be the most positive constructive factor that could be imagined. The discount to which foreign exchange has fallen amounts to a high protective tariff on imports into foreign countries. It is doubtful if America could overcome a further handicap in this respect. Recent views on foreign conditions emphasize the need of America's assistance in rehabilitation. Any influence that would prevent this would be bad, both for this country and for Europe. There is no question but that the continued prosperity of the United States depends on its ability to export profitably. The ultimate probable solution—as pointed out—depends on free buying by this country, both of commodities and securities.

While market speculation is concerned chiefly in the industrials, men are giving more and more thought to the railroad problem. On the question of Government operation, even of ownership, equally intelligent men are found on both sides of the fence, so that it will not do to be too dogmatic, though the writer must confess to a strong leaning toward private operation simply on the wretched exhibition that the Government has almost invariably given of its business undertakings. On the simple question alone of which way the public would most cheaply get its transportation, let alone the question of return on invested capital, we believe that the public will be better off in the long run under private management, though people love to fool themselves by getting lower prices from the Government and then paying more than the difference in taxes.

One thing is certain, if the railroads are returned to their owners on the present rate structure and basis of current earnings, without provision for established credit, there would be widespread calamity. Neither of the bills now before Congress provides, definitely, for a fair return on the investment.

We still adhere to the opinion of last week, that we are in the final stages of a bull market. This does not mean that we are immediately in for a continuous decline; on the contrary, this churning process may continue for several months, and during this period a number of individual stocks may easily see new high prices, but we believe that the men who make money in the stock market have done very much the larger part of their buying, and will make use of any further advance to liquidate. The absorptive power of the public is astonishing, yet there must be a limit to it. We have already heard of instances of houses of substantial size who have participated in many successful syndicates beginning to decline further participations. The minute the ability of the public to absorb new securities has been reached, as soon as a large new flotation falls flat, we shall have turned the corner; in fact, it is not unlikely that the market will somewhat anticipate this.

Possibly the foregoing will give rather a more bearish impression than intended. We realize, as we have been saying for six months past, that we are in a period of expansion and inflation and no man can pretend to say when this has been fully discounted marketwise. It may turn out that we are six months too early in adopting a conservative tone, but it has been our observation so many times in the past, that the public is the loser by becoming over-extended during these periods of heavy speculation at high levels, the most fascinating, but by far the most dangerous stage of a bull market, that we cannot but feel that a word of caution is timely.

GREAT NORTHERN.—The Great Northern is one of the railroads which was almost entirely dependent upon the Government guarantee for the continuance of its 7% dividend during 1918.

In 1917, the company had reported a balance for its stock equal to 9.24%. Gross revenue had been the largest on record, amounting to $88,598,735, but owing to increased costs of operation, the net operating revenue came to only $29,316,578, a figure which had several times been exceeded previously. Last year gross revenue reached $100,698,520. Maintenance charges and transportation costs, however, advanced so rapidly that the net revenue was only $16,269,275. On this basis the balance available for dividends would appear to be equal to 1.3% on the $249,478,250 of capital stock.

Under the Government guarantee the Great Northern is entitled to an annual compensation of $28,686,972. After adding other income of $1,071,526 and deducting interest and other charges of $9,695,229, corporate income account shows a balance of $20,063,269, which is equivalent to 8.04% on the stock.

The actual earnings for 1918 would not seem to offer much encouragement that, on the prospective return of the railroads to private operation, this company would be able to meet its full 7% dividend.

It should be noted, however, that while a great increase in expenses was common to all railroads last

year, the Great Northern's cost of doing business really advanced much more than the average. For ten years preceding 1917, the average annual operating ratio of this company was less than 60%. In 1917, it jumped to 67%, and in 1918, to 83.8%. Expenditures for maintenance of way in 1918 were $17,400,000, as against $11,570,000 in 1917, and $9,700,000 in 1916; for maintenance of equipment, $20,700,000, as against $11,900,000 and $8,700,000; and for transportation $43,000,000 as against $32,200,000 and $22,300,000 in corresponding years. The percentage increase in maintenance charges was much greater than in transportation costs—a circumstance which was probably due to the fact that expenditures for upkeep in 1915 and 1916 were below normal.

The extremely heavy charges of 1918, therefore, may have been more or less an offset to the light charge of 1915 and 1916, and may not be necessary in the future.

Indeed, it is gratifying to observe that, for the first five months of 1919, there was some improvement in earnings over the same period in the preceding twelvemonth. Net operating income amounted to $1,640,540, as compared with $649,748 in 1918. Nevertheless, without a further increase in rates or a radical reduction in expenses, it seems rather doubtful if the year will show the full dividend actually earned. Ordinarily, the first five months produce about 22% of the year's net revenue, on which basis the indicated net for 1919 would be only about $8,000,000, or not sufficient to cover fixed charges.

In any consideration of the position of the Great Northern, the fact must not be overlooked that the road possesses an asset of great value in its half interest in the Chicago, Burlington & Quincy R. R. The Burlington in recent years has paid regular dividends on its $110,839,100 of stock of 8% annually, with occasional extras. The 8% dividends are just sufficient to pay the interest on the Chicago, Burlington & Quincy joint bonds guaranteed by the Northern Pacific and the Great Northern.

The earnings of the company, however, have averaged about 18% a year for the past decade. During Government control, the road is entitled to receive a compensation equal to 19.84% on its stock; and in 1918, on actual operations it earned 14.40% on its stock. If necessary, therefore, an extra dividend by the Burlington—like the 10% extra paid in 1917—would materially improve the income account of the Great Northern.

CENTRAL LEATHER.—With only one exception, that for the quarter ended June 30, 1917, the gross and net earnings for the three months just ended were the largest in this company's history. They are particularly gratifying as demonstrating the great power of recuperation after some temporary relapse.

It will be recalled that previous to the war, the Central Leather Co., though it had large plant values, had not demonstrated a very satisfactory earning capacity; in fact, for six years previous to the war, average earnings on the common stock were less than 3%. Beginning with 1915, however, there was a very decided change; in that year the company earned nearly $11 per share on the common stock and this was followed by two extraordinary years, with earnings of $33 in 1916, and $30 in 1917. In 1918, however, there was a severe relapse, the earnings dropping to $10 per share on the common stock.

This was, no doubt, due to the marking down of the company's inventory, which had risen to very large figures and at the close of 1918 amounted to over $63,000,000, as against an average previous to the war of a little over $40,000,000.

Now it is evidently beginning to get the benefit of this condition. The fluctuations in the company's conditions will be seen from the following figures for the last four quarters:—

	Sept. 30, 1918	Dec. 31, 1918	Mar. 31, 1919	June 30, 1919
Gross	$4,209,537	——	$3,696,790	$5,798,832
Balance for common	1,326,430	$720,608	1,530,186	3,656,613
Per share	$3.34	$1.81	$3.85	$9.29

It will be noted that in the first six months of this year the company has earned over $13 per share on the common and that the earnings during the June quarter, if continued at the same rate, would mean earnings approximately equal to any in its history. As a matter of fact, we understand that two-thirds of the earnings of the June quarter were made in the final month.

At the close of 1918, the company had net tangible assets, after deducting dividends, equivalent to $160 per share on the common stock. In the first six months, after deducting dividends, it has added over $10 per share to this, making a total of more than $170 per share.

This, of course, is after deducting bonds and preferred stock, which are covered by net quick assets with more than $5,000,000 to spare.

PAN AMERICAN PETROLEUM.—The common stock of this company has not only had one of the largest proportionate advances of any on the Exchange during the past year, but it has maintained its high level with peculiar persistence. This week, after a severe break in the general list, finds it selling at a new high price of 119, as against 50 a year ago this time.

It may be frankly stated that, so far as any official statements or figures of earnings published by the company are concerned, it is rather difficult to account for this persistent strength.

The company has now outstanding $39,973,650 common stock of a par value of $50 per share, equivalent to 799,473 shares. It has also outstanding $4,571,000 preferred. This preferred stock is convertible into

common on a basis of 1.15 shares preferred for 2 shares common, so that this would be equivalent to 91,420 shares additional of common stock when so converted as, of course, it must eventually be, making a total common stock capitalization outstanding of, approximately, 891,000 shares. At the present quotation this has a market valuation of about $98,000,000.

As against this the company owns 175,000 shares of Mexican Petroleum common and 90,350 shares Mexican Petroleum pfd. At current market prices, these two stocks have a valuation of about $42,000,000, leaving $54,000,000 to be accounted for by other assets. These had generally been regarded to consist principally of steamships. According to the 1917 report the company would have, with its construction program completed, a total of 23 vessels, aggregating 174,000 tons. If applied, therefore, entirely to their steamship holdings, this balance of market value would mean over $300 per ton for the ships.

It should be noted, however, that the company in 1917 earned from its vessels a gross of over $4,000,000 and apparently net earnings of about $2,000,000. This was from the operation of an average of but 86,000 tons. Presumably, with more than twice this tonnage now in operation and under its own direction, these earnings would be more than doubled.

As a matter of fact, the company has other assets of very considerable value. It has, for instance, a one-half interest in the lease of 10,000 acres of the Pan-American Petroleum Investment Corporation in California. Also 8,000 acres in another field. The company has as well a large development program in Central and South America.

The income account for the six months ended June 30, 1918, shows a total profit of $3,396,000, which would be at the rate of $7.50 per share on the total common, as against $6 earned in 1917.

Such figures, it is hardly necessary to say, would not at all account for the present price of the shares. This is due to the international relations recently established which open up very large possibilities.

GOODRICH.—Goodrich is one of the comparatively few stocks that, in spite of breaks in the market, persists in selling close to its highest level, a figure, by the way, approximately 100% higher than that of a year ago.

Like most of the rubber companies, and in contrast to other industrial lines, the volume of this company's business in 1918 far outstripped any previous year; in fact, the record of this company since incorporation is well worth a glance:—

	Net Sales	Net Income	% Earned on Common Stock
1918	$123,470,188	$17,189,066	25.67
1917	87,155,072	10,544,678	14.50
1916	70,990,782	9,568,765	12.76
1915	55,416,867	12,265,680	17.17
1914	41,764,009	5,440,427	5.62
1913	39,509,346	2,599,747	0.83
1912*	37,533,861	3.522,489	3.34

*For 9 months ended Dec. 31, 1912.

A word of explanation is in order regarding the earnings for 1918. The net income is given without definite allowance for excess profits taxes. This item in 1917 amounted to $2,250,000. Allowing double this amount for 1918 would leave a balance of about $12,500,000, or after deducting preferred dividends of a little under $11,000,000 for the common stock, equivalent to about $18 per share.

Probably a good many people have looked rather askance on this stock from the fact that it has not the asset property value of a good many other industrials. Of its total assets at the close of last year of $141,000,000, no less than $57,798,000 was for good will. Deducting this item, $25,500,000 of preferred stock, current liabilities, reserves, etc., would leave a balance of assets for the common of $32,723,000, or about $55 per share, and all of this value has been built up from the earnings of the last five years. In fact, the heavy percentage of earnings in proportion to assets has been always one of the attractive features of this business. Last year, on a net valuation of about $68,000,000, the company reported net earnings before taxes of $17,000,000, or just 25%.

In this connection the recent issue of preferred stock is rather of interest. While this issue of $15,000,000 will increase the obligations ahead of the common stock by $1,000,000 if the company can maintain the same ratio of earnings on this new capital, it should also add about $2,700,000 to the final balance, the equivalent of $4.50 on the common stock.

OLD DOMINION.—Old Dominion has been pursuing the general policy of curtailment, the monthly production from its own mine averaging around 1,800,000 pounds, as against a normal figure of 3,000,000. During this period of curtailment, emphasis is being laid on development, rather than on revenue; an amount equal to about 2 cents per pound of production is purposely being spent on development work.

The report for 1918 spoke of disappointing developments in the western end of the mine. On the 15th and 16th levels west of the shaft a capping had been uncovered of such a size and nature as to establish a basis for the hope that the company would uncover one of the largest deposits of high-grade ore in the southwest. While a great body of mineralized matter was uncovered, in places 250 feet wide, the values

were very irregular and on the average were low. There has been a good deal of faulting and shifting in this country, however, and it is not impossible that other cross-cuts now being run on the lower levels to the west may yet uncover a large body of high-grade ore. To the east, the developments have been so satisfactory as almost to compensate for the disappointments in the west. From the 14th to the 19th levels very satisfactory values have been disclosed. The developments in the adjoining Arizona Commercial, which is, geologically, perhaps, 300 feet higher, would indicate that the Old Dominion has a good chance of developing a shoot of ore for, perhaps, 1,000 feet vertically in this section.

The company is slowly sinking its "A" shaft to the 19th level, in the face of a very heavy flow of water. This shaft was purposely sunk in the country rock and has been so all the way down, but copper values are now unexpectedly beginning to appear, which may possibly indicate the approaching intersection of the Old Dominion and one of the veins branching off to the north.

Like most copper producers, the Old Dominion had a very much heavier stock of metal on hand at the close of 1918 than ever before, the figures reading $2,346,000. Previous to 1917, the company had never had $1,000,000 worth of metal on hand at the close of the year. Up to a few months ago, this was to be regarded as in the light of a liability, but is now a live asset. Assuming that this was carried on the books around 15 cents per pound, the recent increase of over 3 cents in the price of the metal would add about $1,400,000 to the value of this asset, which itself is equal to nearly $3 per share on the stock.

UNITED DRUG COMPANY.—United Drug is one of a number of New England enterprises that, although fostered by local capital, was not properly appreciated until quoted in the New York market. This business partakes of the nature of the chain store business, and as in all such enterprises, a large part of the real value behind the stock is not so much in fixed assets as it is in good-will, lease holdings, trade-marks, etc.; hence, the actual physical property value per share is but a comparatively negligible amount.

The business has prospered surprisingly, the record for the three years of the present company being as follows:—

	1918	1917	1916
Gross sales	$51,028,336	$40,716,290	$33,404,866
Net income	4,579,922	3,156,007	2,014,809
Common stock (% earned)	17.50%	10.40%	7.03%

Judging by the earnings of the first quarter, the company should again eclipse the previous record, earning close onto 20% on the common stock. With the recent issue of $7,500,000 first preferred, the company will wipe out its current liabilities and place itself in a strong financial position.

NATIONAL ACME.—For the first six months of 1919, National Acme reports net profits, before deducting taxes, of $1,481,539, against $2,766,799 in 1918.

These net profits for the first half of 1919 are equivalent to just under $3 per share on the stock.

During the early part of this transition period there developed rather severe competition, which resulted in some cutting of prices. On the standard line of products the management felt it advisable to meet this competition. On the machinery end, however, the feeling was that this was but a very temporary condition, and that it would be good policy to maintain prices.

As a natural result much the larger portion of the falling off in the sales has been in machinery department, but now the supply of these seems to have been thoroughly cleaned up, leaving the field practically free from second-hand machine competition.

The prospects for developing foreign business is particularly good. The actual orders on hand at the close of the half year showed a material increase over those at the beginning of the period.

SOUTHERN PACIFIC.—The Southern Pacific is one of the comparatively few roads whose operation proved profitable to the Government last year. The standard return which the Government is obligated to pay amounted to $48,167,342. After all credits for other income and debits for interest and other charges, there remained a balance of $28,684,916, or 10.38% on the $276,442,905 of stock outstanding. This balance is obtained after deducting $2,533,000 for expenses incurred prior to January 1, 1918. Disregarding this item, which might properly be considered a charge against profit and loss and not against income, the percentage for the stock is increased to 11.29%.

The actual net operating income of the properties for the year 1918—which corresponds to the Government guarantee—was $55,925,277, showing the Railroad Administration a profit of $7,757,935. This figure is equivalent to 2.81% on the stock. Thus it would appear that on actual operations the Southern Pacific earned 14.10% subject, however, to federal excess profits taxes, which would probably reduce this figure somewhat.

So far during 1919 net earnings have made a rather disappointing showing. For the first five months, to May 31, net operating income came to only $8,499,821, as compared with $17,620,885 in the same period of 1918. On this basis the company is not now earning the 6% dividend on its stock.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 816 August 1, 1919

THE GENERAL MARKET.—One's interpretation of this week's market depends largely on one's attitude. Those who believe that speculation has largely run its course would say that it had gone stale. The temper of the market can often be gauged by its reception of news. The report of the Steel Corporation for the second quarter was distinctly good. Previous reports of independent companies had shown severe shrinkage in profits in the second quarter, as compared with the first. The Steel Corporation's report, it was supposed, would likewise show a loss. Instead of this there was a gain; not large, to be sure, but the difference was in the right direction. On the strength of this the market opened up slightly, only to meet with very heavy selling. There is, however, this to be said; that the market has absorbed a large volume of sales without acute weakness, let alone demoralization. The buying power is still considerable.

The three critical factors today are labor, money and crops. Unfortunately, recent developments in all of these respects have been unfavorable. It is quite natural that labor should be insistent on higher wages. We think every fair-minded man is anxious that labor should receive wages in accordance with the advanced cost of living, though we make bold to say that making very full allowance for the increased cost of living, the relative position of labor has never been so good as it is today. The alarming feature is the unscrupulous manner in which labor is taking advantage of the present situation. There is no hesitation in breaking agreements, or putting the public to great inconvenience if they think that it is to their advantage to do so. It is particularly disquieting that they have got beyond the control of their leader. Attempts on the part of union officials toward moderation, threats of revoking charters, are met with derision. The "public-be-damned" attitude of labor today is exactly on a par with the attitude of capital a generation or more ago. Capital was riding for a fall then and got it. We feel labor will have to go through the same experience.

The money situation has again become temporarily acute; it is well known that a close watch is being kept on brokers' loans, which have again mounted to new high levels. It is difficult to see any distinct easing up for several months to come.

The latest word from the crops was of severe damage. While reports at this time of year should be accepted with some reserve, it will not be forgotten that the crop scares of three years ago largely materialized. Until this factor is more definitely settled, it will make for hesitation.

The decline in foreign exchange has already caused some falling off in foreign demand for our goods. This is likely soon to be remedied and there will, without doubt, be a large demand for our goods, particularly raw materials.

The market, as frequently pointed out, is six months to a year ahead of business. Industrially, the country has, by no means, reached its highest level and after it does so, one might reasonably expect it to continue for at least a year. Industrially, as well as marketwise, we are in a period of post-war inflation—a thoroughly abnormal state. No doubt the market will anticipate the ending of this period as it did the beginning, but it would be surprising if the market began its long-continued liquidation while the country—industrially—is still on the up grade.

Technically, there has been, we feel, some improvement by the liquidation this week, and if labor can control itself, we believe the period of active speculation may be prolonged several months, during which a number of issues which have not enjoyed the market to which they were entitled in comparison with others might logically be expected to show some advance.

We still feel, however, that we have seen much the larger proportion of the bull market and that advantage should be taken of any decided rise from this level.

INVESTMENTS WITH SPECULATIVE POSSIBILITIES.—After every large advance in the stock market those who elect to liquidate are confronted with the problem of the investment of the proceeds. Unfortunately, few are content to "salt away" their proceeds in strictly high-grade non-speculative securities, or short-term investments, and await a more favorable buying opportunity.

There is, of course, always the possibility that there may be a further advance after one has disposed of his speculative holdings and probably a large percentage of people would like to feel that they had the possibility of sharing in this if it could be done with reasonable security.

It is with this thought in mind that we have prepared the following table of suggestions. As the difference in the yield would indicate, they are not all, by any means, equally secure as investments, but the large majority of them would be fairly attractive from this standpoint, that is to say, one might buy

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most of these outright and be sure of obtaining a reasonable return on his principal, even if the speculative feature did not materialize.

	Int. or Div.	Price	Yield	Speculative Feature
International Agricultural Pfd.	5%	87	5.70%	7% cumulative stock with about 40% of unpaid dividends.
Bethlehem Steel 8% Pfd.	8	115	7	Convertible into common stock at 115.
Federal Mining & Smelting Pfd.....	5	45	11	7% cumulative issue with about 10% of accumulated dividends.
American Hide & Leather Pfd.....	7	132	$5\frac{1}{4}$	116% of accumulated dividends.
International Mercantile Marine Pfd..	6	120	5	57% in accumulated dividends.
United States Smelting 6% notes	6	104	5	Convertible into common stock at 75.
New York Central Debenture 6s	6	99	6+	Convertible into stock at 105.
Wilson & Company Convertible 6s...	6	101	$5\frac{7}{8}$	Convertible into stock at par after Dec. 1, 1920.
Chile Copper Company 6s	6	93	$6\frac{3}{4}$	Convertible into stock at 35.
American Telephone & Telegraph 6s..	6	103	5.40	Convertible after August, 1920, into stock at 106.

ATLANTIC GULF & WEST INDIES.—It has been appreciated right along by those who are closest to the Atlantic Gulf situation that from the standpoint of comparative analysis it was somewhat to be deplored that the company should be obliged to issue an annual statement for its fiscal year to December 31, 1918.

Certainly upon purely superficial examination the contrast between the $13.52 earned on the $14,963,400 common in the 1918 year, and the $59.58 per share earned in 1917, and the $50.03 earned in 1916, is rather painful.

But when it is realized that the 1918 statement includes but $4\frac{1}{2}$ months' net earnings of the Clyde, Mallory and Southern Steamship Companies and that the railroad administration has not yet paid to these companies the money due for $7\frac{1}{2}$ months' operation under its control, the basis for considering the 1918 statement as fragmentary and necessarily incomplete at once appears. Furthermore, the moneys due to the Atlantic Gulf from the Shipping Board for commissions upon earnings during the 1918 year were not included. The 1918 income account is a statement of fact and until these commissions have actually been received they cannot be taken up in income account. Meantime the expenses for the $7\frac{1}{2}$ months' period during which the Clyde, Mallory and Southern Steamship lines were under railroad control have been absorbed as an operating expense.

Presumably the sums eventually realized from these two sources will amount to several millions of money and it will all be net profit. Had these sums been counted in the 1918 results, Atlantic Gulf would have earned considerably better than $30 per share.

One of the interesting things Atlantic Gulf did in 1918 was to revalue its steamship tonnage and write it up to figures more in keeping with its replacement value. The balance sheet as of December 31 last shows tonnage carried at $42,753,457 as compared with $24,499,562 at the close of 1917. This is an increase of $18,253,895 and without attempting detailed explanation it may be stated that it amounts in substance to valuing the ocean tonnage at about $150 per ton, as compared with about $85 per ton to January 1, 1918.

The change is, of course, purely a bookkeeping transaction, as the item of good-will has been reduced by a corresponding amount. In point of fact, an additional $11,411,081 was written off against good-will, which on December 31 last stood at but $12,040,015, compared with $41,704,991 at the end of 1917. It is not impossible that another two years will witness the total disappearance of a bulk of good-will for which in the past the company has been somewhat criticized.

It will be noted that at the close of 1918 Atlantic Gulf had in cash, liberty bonds and marketable securities a total of $20,600,768, of which $8,240,348 were held by the trustee under the subsidiary lines mortgages and were not classified as a current asset. The comparative total of cash and securities at the close of 1917 was $11,870,447, so that during 1918 there was a gain of nearly $9,000,000 in the cash, liberty bond and marketable security item. And this was after paying $5,400,000 for 1917 war and excess profits taxes.

Happily the complexities of 1917 accounting created by railroad administration control do not exist this year. Of the 40 odd ships of the Clyde, Mallory and Southern lines only 15 are in coastwise service, while over 25 are in profitable foreign trade. In addition 59 ships are being operated on a commission basis for the Shipping Board.

The outlook for 1919 is, therefore, favorable to a very sharp betterment in common share profits. This tendency will be further stimulated if the moneys due from the railroad administration and shipping board for 1918 operations are adjusted in time to count in 1919.

GENERAL CIGAR COMPANY.—For some time past there have been intermittent rumors of a consolidation of several of the larger tobacco companies, in which the General Cigar Company has been mentioned as one of the components. Such rumors have been used with considerable effect to boom the

tobacco stock. But aside from all considerations of this nature it would seem as though the earnings record of this company offered as good an explanation as any of the recent activity in its shares.

During the past ten years the earnings of the General Cigar Company have exhibited a high degree of stability and of late a decided advancing tendency. From 1909 to 1918, inclusive, the average annual percentage earned for the common stock, after allowing for the 7% dividends on the $5,000,000 of preferred, has been 6.45%. Dividends of 5% were paid in 1909, 6% in 1910, 4½% in 1911, and 4% yearly thereafter until this month, when the rate was increased to 6%. During this same period the management put back into property from earnings a total of nearly $3,60,0000.

While this is a good average record, there is nothing at all exceptional about it. The 1919 year, however, judging from the report for the first six months, bids fair to outstrip all of its predecessors. Net earnings available for common dividends amounted to $1,087,761, or at the annual rate of 12% for the $18,104,000 of stock outstanding. In 1918, the company reported 7.23% earned for the junior stock issue.

The expansion of the company's business in the last few years have been accompanied by a big increase in outstanding bank loans. From 1912 to 1915, bills payable have averaged around $2,500,000. In 1916 they jumped to $4,000,000, and the next year to $6,592,000. As of June 30, 1919, they totalled $6,224,000. In order to materially reduce these bank loans the corporation recently offered $4,620,800 of new debenture 7% cumulative stock, convertible into common at par, for subscription to existing preferred and common shareholders. The dividend on this stock will probably be slightly more than the interest on the loans retired, but the working capital position will be very much improved. As of May 31, net working capital stood at $7,605,495. The elimination of approximately $4,500,000 of bills payable would increase the net quick assets to about $12,000,000.

Current earnings would appear to amply justify the increase in the dividend rate to 6% and in view of the company's past record for stability there is less reason for considering them temporary than might be the case with some other corporations. Nevertheless, these earnings alone would appear to have been pretty well discounted already in the 100% rise which the stock has enjoyed this year.

AMERICAN HIDE & LEATHER.—The expansion in net earnings for its $2,500,000 preferred which American Hide & Leather has shown since the slump of the December quarter, has furnished decidedly convincing evidence of the strength of the leather market, and has afforded proof of the great asset which the company possessed in its stock of raw materials and finished leather on hand when the armistice was signed on November 11.

This expansion in earnings is very well pictured by taking the earnings by quarters during the fiscal year which ended June 30 last. The following table shows the net after depreciation and taxes and the balance for the preferred as well as a summary for the entire fiscal year:—

	Net after Deprec. & Taxes	Net for Preferred	Equals on Preferred
September quarter	$814,205	$648,830	5.19%
December quarter	498,617	333,242	2.66
March quarter	780,202	614,827	4.91
June quarter	1,259,155	1,093,780	8.75
Total	$3,352,179	$2,690,679	21.51%

It will be noted that there has been practically an arithmetical progression in the balance for the preferred in the past three quarters. The net of $1,093,780 realized in the three months to June 30 was the largest balance for its preferred which American Hide has ever earned in a single quarter, slightly eclipsing the former record of $1,069,962 which measured the results of the three months to December 31, 1916.

The balance of $21.51 earned on the $12,500,000 preferred in the hands of the public is also a new high record for any fiscal year, exceeding the $19.57 per share earned in the June 30, 1918, year.

In the past four fiscal years, American Hide & Leather has shown continuous expansion each year in its net profits and in this period has rolled up total net of $8,459,865, or $67.68 per share for the senior stock.

As of June 30 last, American Hide & Leather had net quick assets of $15,111,912, equal to the par of its $2,706,000 bonds, which mature September 1 with a balance of $12,405,000, or $99.24 per share for the preferred. Since June 30, 1915, working capital has gained slightly over 50%, or has increased from $10,069,974 to the present figures of $15,111,912. The company can easily pay off its maturing bonds from current assets and still have a balance of close to $13,000,000 of working capital.

Gross sales of American Hide & Leather have been running at very high figures. For the past six months the rate has averaged over $35,000,000 and June gross was at the rate of $45,000,000 per annum.

Such a high figure can hardly be expected to continue, but the present world shortage of leathers is so acute as to hold out the promise of a very satisfactory volume of gross and net for many months to come.

Eventually some plan will have to be worked out to take care of the 115% of accrued preferred dividends. To pay these in stock would entail a very heavy increase in capital. The first step in revamping the company's financial structure will be completed when the bonds are all paid off on September 1. Meantime

directors have declared an extra of 2% on account of accrued dividends. It is believed this extra can be repeated again within a few months, so that it is not impossible that the next two years will witness the cutting down in the accrued dividends to not over 100%. Even this figure is so great as to suggest that the method by which accrued dividends can finally be liquidated has not yet been discovered. The company has made great progress in four years and those who are closest to the situation are confident that it has entered a period of sustained larger earning capacity.

VIRGINIA CAROLINA CHEMICAL.—The annual statement of Virginia Carolina Chemical for its fiscal year to May 31 last, is the first report of any of the important fertilizer companies to appear. The actual figures very closely conform to the preliminary estimates, the surplus for the $27,984,400 common after interest, taxes and preferred dividends amounting to $5,061,091, or $18.08 per share on the junior stock. Except for the rather remarkable results of the 1917–1918 year, this is the biggest surplus for the common which Virginia Carolina has ever accumulated in a single twelve months. Furthermore, it is 4½ times the regular 4% dividend rate on the common, or three times the 6% which has been paid for two years, including an annual extra of 2%.

Virginia Carolina has now developed to a point where from the standpoint of gross sales it is only 50% a fertilizer company. The gross overturn of $136,379,925 achieved in the fiscal 12 months to May 31 was slightly less than 50% a fertilizer business. Something over 50% of this big volume of business represented the products of its cotton oil department, the Southern Cotton Oil Co. This fact must be borne in mind in giving consideration to the earning record or trade position of Virginia Carolina Chemical.

It will be noted that an increase of $13,916,255 in gross sales, a gain of 11.3% was accompanied by an actual decline of $1,719,412 in net profits after taxes and interest. This decline amounted to 20.5%.

The explanation of the smaller margin of selling profit is to be found partly in the fact that inventories have been taken at very conservative figures. But it really measures with fair accuracy the trade conditions which prevailed in the company's fertilizer territory and the difficult conditions under which the cotton oil industry has been compelled to operate, largely as a result of successive short crops of cotton. Another factor has been the slowness of collections in its fertilizer department. Thousands of Southern farmers have been obsessed with a desire to speculate in cotton, have held it for higher prices and in so doing have obliged companies like Virginia Carolina to wait longer than normal for their money. This is one reason why accounts receivable on May 31 stood at $23,580,270, an increase during the year of $5,014,626, or 27%, and why bills receivable stood at $8,380,912, against $7,063,951 at the end of the 1918 year. Since 1915 the items of accounts receivable has expanded no less than $11,597,411, or almost 100%. This alone would fully explain the $9,670,350 increase in four years in floating debt to a total on May 31 last, of $17,317,500. But in the same four years the inventories have jumped from $8,860,364 to $18,594,077, or a gain of nearly 110%.

It is fairly obvious that a reduction in inventories or an improvement in collections or a combination of the two should scale down floating debt to very normal proportions. In a broad way, however, Virginia Carolina Chemical has made a very creditable record during the four years war period. In this interval the earnings for the common have amounted to $63.63 per share, of which 11% have been paid out in dividends, while over $52 per share has remained undivided in the business.

The following table gives a fairly composite picture of the great expansion in sales and earning power in recent years. It also shows increasing liberality in the matter of repairs and maintenance absorbed in operation. These deductions amounted to $3,696,400 in the 12 months to May 31 last, an increase of almost $700,000 over the previous 12 months. The detailed figures follow:—

Year to May 31st	Gross Sales	Net Profit	Repairs & Maint.	Working Capital
1919	$136,379,925	$6,665,256	$3,696,400	$36,124,740
1918	122,463,670	8,384,668	2,998,552	33,093,857
1917	83,774,580	4,656,386	2,145,831	28,096,162
1916	67,899,444	4,507,578	1,924,749	27,591,299
1915	62,218,078	3,714,208	1,476,125	26,761,023
1914	60,863,107	2,550,377	1,194,280	20,649,380
1913	53,378,095	1,747,096	1,424,308	20,005,396

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 818 August 15, 1919

GENERAL MARKET.—Judging the market simply from a technical standpoint, we should be inclined to be rather optimistic over its immediate future. The drop of the last week lopped off many of its excesses, and its action since is such as to encourage a good deal of short selling. We believe that underneath the surface, a fair amount of accumulation is going on. We are inclined to think that we are seeing the worst of the labor problem right now. We do not hear so much of the emmigration of labor; on the contrary, we note that there are evidences of the beginning of a reverse tendency.

The fact cannot be too often emphasized that no amount of legislation can cure our present evils. Of course, there are some unscrupulous persons who would take advantage of the present situation, and this practice should be stopped, but the present high level of prices is absolutely fundamental; and we do not believe that the stockholders of any of the larger companies need have any apprehension because of the effort, chiefly on the part of politicians, to fasten the blame for present conditions on them. While the larger volume of business that all companies have been doing of recent years makes a larger gross profit, we believe that a thorough investigation will show that the margin of profit has been by no means excessive.

The fact is that the world cannot turn from production to destruction for four years, and produce any other result than a shortage of goods and labor. There is only one cure for this, and that is, a greater production of goods, and a greater, not a less, effort, by labor. As against the present attitude of labor in this country and England, all reports are to the effect that European labor is buckling down to the task in earnest. The first break in the situation here will come with the harvesting of a normal crop in Europe, and latest investigations are to the effect that in spite of great difficulties, about 90% of the normal European crop has been planted. Prices have run riot, largely because there has been no competition. We have been the only source of supply. Once let Europe get on an economically independent and competitive basis, and we shall find that prices here will come down without any assistance. In short, the process of deflation would begin and will continue for a long time to come. As we have previously remarked, we cannot conceive of rising stock prices on falling commodity prices.

So, from a long-range standpoint, we, frankly, feel rather pessimistically inclined, so far as the general level is concerned, but we believe that the technical situation is sufficiently improved, and the industrial situation righting itself enough to permit of quite a substantial temporary rise.

KELLY-SPRINGFIELD.—It is perhaps not generally appreciated that the sole purpose of the financing which Kelly-Springfield arranged in June is to double its present manufacturing capacity. This will be done by the erection of a big tire plant at Cumberland, Md., with a capacity considerably in excess of the combined output of the present plants at Akron, Ohio, Wooster, Ohio, and Buffalo, N. Y. Work on the new plant has been in process for some weeks and if all goes well the Maryland factory should be turning out tires by June 1, 1920, and possibly a few weeks earlier.

The effect of this production should be to give Kelly-Springfield in 1920 gross sales 70% greater than in the fiscal year to December 31, 1918. In 1921 when production has had time to reach its stride it would not be surprising if the annual overturn was at the rate of $50,000,000.

The June financing, which was formally approved by shareholders on July 11, consists in the creation of an 8% second preferred stock which has been offered to shareholders at par. The amount to issue is $5,860,200 and the entire proceeds will go into the new Cumberland plant.

In arranging this financing the company very wisely left undisturbed its present 6% preferred issue now amounting to about $3,300,000. To have called this stock at 110 would have cost a substantial premium and its refunding would have meant the payment of a higher rate of dividends.

Kelly-Springfield like all tire companies is having in 1919 a year of remarkable demand for its product. In the last two months orders have been nearly three times in excess of plant capacity. The trade position of Kelly-Springfield is rather unique in that its tires, which for some years have enjoyed a quality reputation, are largely used on the higher priced cars. In other words, 70% of the company's gross sales in dollars represent tires purchased by owners of cars in or above the $1,500 class of automobiles. The other 30% go to owners of lower priced cars. If the argument of Kelly-Springfield interests proves correct this means that in periods of business depression the company should have a high degree of stability. When general business is slack curtailed usage of cars affects the owner of a cheap car quicker and to a far greater degree than it does the possessor of a more expensive car.

In its half year to June 30, Kelly-Springfield net profits were at a rate fully abreast of the $4,589,765 after taxes but before interest and dividends earned in the 1918 year. In short the company premises to

earn in 1918, even after allowing for six months dividends on the $5,860,200 second preferred, from 80 to 90% on its approximately $4,907,000 common on which cash dividends of 16% or $4 per share and stock dividends of 12% or $3 per share are now being paid.

Kelly-Springfield by December 31 next ought to have a working capital of at least $10,000,000 compared with $5,406,000 at the end of 1917 and only $2,463,000 on December 31, 1914.

AMERICAN SUGAR REFINING COMPANY.—The nation wide agitation over the cost of living and in particular the cost of foodstuffs promises very speedily to force a situation whereby Government control of sugar prices will be extended through 1920. It is generally admitted by leading sugar authorities in New York that without Government control the 1920 cost of sugar would soar to uncomfortable levels. While such advances would furnish Cuban cane sugar producers with spectacular profits and would grant to American refiners the privilege of speculation in raws which they have been denied for two years, there is another side to the picture.

Abnormal prices for Cuban raws would inevitably produce ultimate demoralization in that country's chief industry. Labor, land values and the entire machinery of sugar production would be inflated to a degree making the final adjustment all the more painful and disastrous.

If prices for 1920 are to be fixed by the Sugar Equalization Board of the United States it will obviously have to be with the consent and agreement of the Cuban authorities and also in all probability with the cooperation of British sugar authorities.

Already even under present restrictions the Cuban raw sugar market is showing an inflationary tendency. Sales of 1920 crop sugars have already been made in small volume at figures three-fourths of a cent to a cent per pound above the present Cuban f. o. b. quotations.

It is, of course, inevitable that the Cuban producers will receive more for their 1920 crop than the present 5.50 cents per pound. In fact Cuban producers are showing a strong tendency to stand together for a price of 6.50 per pound and a resolution has already been introduced in the Cuban House to authorize the President not to permit exportation of sugar at any lower figure than 6.50 cents per pound.

It therefore seems a fair inference that American Sugar is promised for 1920 a second successive year of a guaranteed selling price for refined and a guaranteed cost price for raws. Its margin of profit per pound will be small, but the company will enjoy the great advantage of capacity operations.

In 1918 American Sugar operated under exceedingly difficult conditions. The country was on a sugar ration and in the second six months of 1918 the enforcement of the rationing plan and almost total loss of any export refined orders forced American Sugar to drastic curtailment.

In 1919 operating conditions have been entirely different. All sugar refiners have been able to operate at practically full capacity since January 1. There will be a two or three weeks break in August due to shortage of raws caused by the shipping strike. But demand for refined sugar is nationwide and, contrary to normal seasonal conditions, demand has increased in July and August rather than relaxed. Official figures have shown an increase in per capita consumption in the United States of four pounds for the first half of 1919. Added to the unprecedented domestic demand has been very heavy export movement in refined. In the half year nearly 400,000 tons of refined were shipped from American ports. This is at the rate of 800,000 tons per annum, a record figure and compares with 150,556 tons in 1918, 451,221 tons in 1917 and a normal before the war of 25,000 to 50,000 tons. American Sugar has handled 45% of this export business.

It requires only a modicum of calculation to see that the 1919 refining profit of American Sugar should very materially exceed the $6,661,683 earned in 1918. In fact it may even approach the 1917 total of $10,055,291.

American Sugar because of Government price regulation occupies the unique position of being one of the very few food producers absolutely protected against any charge of profiteering. Its profits, if large, will flow from capacity operations and will represent efficiency of management. And even of these profits Federal income and excess profits taxes will exact a large slice.

From the standpoint of its $45,000,000 common stock American Sugar faces the prospect of being able to continue at least during 1920 the present 10% dividend distribution.

AMERICAN CAR & FOUNDRY—AMERICAN LOCOMOTIVE.—The present position of the country's two largest equipment producers, American Car & Foundry and American Locomotive, is highly interesting both from the standpoint of the corporations themselves and also as reflecting the new international position which American industry has assumed.

Car and locomotive builders of the United States possess today a potential world market for their products the proportions of which are but faintly realized. The key that would unlock these markets and convert them into a present reality consists in arrangement of proper credits. Broadly speaking, American car and locomotive builders can lay down equipment in Belgium, Poland, Roumania or South Africa at prices 20 to 25% less than any European builders. Recent competitive bids have demonstrated this to be the case.

The only immediate reason why many millions of such orders are not flowing to this country is that the American companies naturally hesitate to extend the long credits—in some cases more than five years—

which foreign purchasers have made a condition precedent to the placing of their orders. Roumania for example would take several hundred American locomotives, but must be furnished with credit. Substantially the same thing is true of every European buyer.

United States government officials have had this matter fully explained to them and understand the situation. American bankers fully appreciate the unique opportunity and the unique need for a credit arrangement. The railroad administration realizes that domestic car and locomotive orders for the balance of 1919 at least will be on a parsimonious basis and it is anxious that the wheels of industry shall not lag. The entire situation is so prolific in possibilities that out of it there would seem certain to evolve in time a financing plan which would not tie up the capital of the producing companies and which at the same time would permit foreign countries to place heavy orders with American builders.

Specifically, American Car & Foundry and American Locomotive are highly interesting because their financial and earning position appears so well intrenched that both companies can with conservatism afford to distribute larger dividends to common stockholders; in fact American Locomotive directors on Thursday took action in this direction by increasing the regular dividend basis from 5% to 6%.

American Car & Foundry closed its fiscal year April 30 with a balance for its $30,000,000 common of $114 per share before taxes and $32.25 per share after taxes. The relatively enormous sum of $24,475,000 was reserved for taxes. The company carried over into the new fiscal year $100,000,000 of unfilled orders. Repair work is unprecedently heavy and has been for several months. Because of lighter taxes the prospect is that the 1919–20 fiscal year will show for the third successive twelve months common stock profits touching the $30 per share mark. The company has maintained a modest margin of profit of less than 10% and has retained over 65% of the net profits of the past five years in the business. Because of this it is felt that a substantial increase in the common dividend above the current 8% is justifiable and proper.

American Locomotive closed on June 30 the most successful year in its history. Recent estimates of a balance for the $25,000,000 common above all prior deductions of $40 per share are believed to be entirely conservative. In fact it is likely that final figures will over-run this amount by a few dollars. The company has not carried over as large a total of unfilled orders as American Car & Foundry, the exact amount being less than $20,000,000. But the repair business which the company is handling is very satisfactory, its Canadian plant is booked well ahead and the European and world-need for locomotives is even greater than the demand for cars. Arrangement of credits should give American Locomotive some very satisfactory export orders.

In a broad way it is only fitting to call attention to the moral enforced by the unfortunate railroad shopmen's strike. This moral is the undoubted fact that during the strain of war and because of railroad poverty the condition of equipment on American railroads is sub-normal.

Here again is a great potential market. It is, to be sure, fraught with problems of credit which dwarf into insignificance the question of foreign export credits. But it is a problem which strikes at the heart of the whole railroad situation. Sooner or later American railroads must secure the rolling stock and motive power which alone makes it possible for them to conduct business.

THE PORPHYRY COPPERS.—In reviewing the reports on the "Jackling" properties for the second quarter of the year, attention should at once be drawn to the fact that the average price on which sales were figured by these companies was about 14¾ cents, against a current market for the metal of about 7 cents a pound higher. As is well known it is the regular practise of these companies to carry their unsold copper at 13½ cents a pound. The low carrying price for the second quarter is due to actual deliveries during the period at the low prices then prevailing; the higher sales' prices not reflecting this in the second quarter's earnings, as most of the advance in copper prices has occurred since the close of the second quarter. In short, so far as these companies are concerned, the rise in the price of copper scarcely affected at all their statement of earnings for the second quarter, but it will, of course, be reflected in subsequent quarters.

In addition to this, there are three other features of interest, namely, the large increase in "Miscellaneous Income"; increased extraction, and lower cost of production. As regards the increase in "Miscellaneous Income," we would simply say that this represents, to a large extent, an adjustment of accounts covering smelting tolls and treatment charges, and the figures for this quarter cannot at all be counted on as a permanent rate of revenue.

The increased percentage of extraction is particularly noticeable in the case of the Utah and Chino, and there is reason to believe that this increase can henceforth be maintained.

The lower cost of production was partly due to decrease in wages, but in a larger way to the adjustment to a 50% operating basis. Now that the price of copper has again advanced, there has been a corresponding increase in the wage, but this is the second time within a period of five years that this type of property has shown itself elastic to changing conditions.

Utah Copper:—

There is noticeable here a very sharp increase not only in the operating profit, but an advance of over $1,000,000 in "Other Income." The difference, however, of about 7 cents a pound between the average price for the quarter and the present market would very much more than offset this increase in "Other Income." The operating cost of 11.59c. was a decrease of over 2 cents a pound, as compared with the first quarter, and was the lowest that the company has shown in several quarters. Particular attention

should be called to the increase in recovery from 74.7 to 81.8%. This recovery on ore running 1.35% is perhaps an exhibit of as great efficiency in this respect as has been made by any copper company.

To show the extent to which the company has adjusted itself under varying conditions, we compare the principal items as follows:—

	Second Quarter	First Quarter
Gross lbs. copper produced	28,046,978	29,261,209
Oper. cost without credit for misc. income	11.59c.	13.72c.
Recovery	81.8%	74.7%
Total profit	$2,652,104	$481,324
Profit per share	$1.63	$.30
Basic Price	14.74c.	12.89c.

Chino:—

The average carrying price for the quarter was 14.60c. If it could have realized the current market price for its copper, its deficit (after dividends) of $282,000, even after deducting the increase in its "Miscellaneous Income," would have been turned into a surplus of approximately $170,000. Aside from this, the principal feature is the increase in recovery of three pounds per ton on practically the same grade of ore, and a very decided increase in the grade of concentrates.

The principal items compare as follows:—

	Second Quarter	First Quarter
Lbs. copper produced	10,541,471	11,512,133
Oper. cost without credit for misc. income	14.16c.	15.03c.
Recovery	71.70%	64.82%
Total profit	$370,415	$173,442 (Deficit)
Basic price	14.60c.	13.04c.

Ray Consolidated:—

The figures used by this company as the basic for estimating the profits for the quarter was 14.8c. Here again, sales on the present market for copper would have wiped out the deficit after dividends of $472,000 and shown a surplus of over $100,000, even after deducting the increase in "Miscellaneous Income."

The principal items compare as follows:—

	Second Quarter	First Quarter
Lbs. copper produced	11,667,701	12,471,729
Oper. cost without credit for misc. income	14.64c.	15.15c.
Recovery	79.06%	77.88%
Total profit	$316,365	$152,298 (Deficit)
Basic price	14.8c.	13.13c.

Nevada Consolidated:—

The difference in earnings here, using the present market price instead of the actual basic price for the quarter would have amounted to something over $700,000—nearly sufficient to have eliminated the deficit after allowing for increase in "Miscellaneous Income." The grade of the ore for the quarter dropped from 1.79 to 1.42, which no doubt accounts for the fact that this is the only one of the four companies to show an increase in cost, as compared with the first quarter.

The principal items compare as follows:—

	Second Quarter	First Quarter
Lbs. copper produced	11,149,362	12,201,444
Oper. cost without credit for misc. income	18.07c.	16.85c.
Total profit	$184,777	$111,159 (Deficit)
Basic price	15.12c.	13.6c.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 819 August 22 1919

THE UNIVERSITY OF ILLINOIS DEC 6 1926

THE GENERAL MARKET.—It seems scarcely possible that it was only about a month ago that financial columns were filled with reports of increasing earnings, with glowing accounts of the prospect of future business, with analyses of asset value, with especial emphasis placed on earnings reinvested during the war period, with the demand that must materialize for American goods for rehabilitating Europe, etc. To judge from much of the present comment one would suppose that these values and potentialities had disappeared.

What, as a matter of fact, has taken place? It must be admitted that there have been two positive adverse developments, viz.: the deterioration of the crops and the drop in foreign exchange. The first is beyond man's control and cannot be remedied—though even after making full allowances for damage, it is quite certain that we shall have a large, though not a bumper, yield. The second it is possible, in time, to remedy, and this will undoubtedly be done.

The great depressing influence today is, unquestionably, the labor problem, with its intimate relation to the cost of living. The fallacy here is to suppose that labor can maintain a war level on a peace basis; that there can be a deflation in everything else without affecting labor. It is, we believe, conceded by all, that labor should share to a greater extent in the profits of business, and that wages should be adjusted to meet varying conditions,—though even the heads of railroad unions have finally come to see and admit that nothing is to be gained by further wage increases.

The real nub of the question is whether labor—taking advantage of present economic conditions—can force the "union control" idea on industry. This means, in a word, whether capital can be forced to furnish the necessary financial requirements without having any voice in the control. This issue has been fought out many times in the past and there has never been but one result; we do not believe that there will be any different result in this instance. We fully agree with the principle of profit-sharing and in making the degree of application to work instantly reflected in the amount of remuneration, but we do not believe that public opinion will force any industry to submit to the arbitrary dictation of its employees as to how that business shall be run. Labor has unquestionably its rights, but so has capital, and the attempt to over-ride these is quite as disastrous as to attempt to override those of labor. Those who doubt this statement have only to consider the present plight of Russia. Here and there where owners of business who have risked their capital have stood up for their rights, they have been able to preserve them. We find it difficult to believe that the matter will come to open violence, though the market in some instances has almost discounted this.

If, in the midst of the turmoil, one will stop to consider the matter calmly, it is not difficult to find some very decidedly favorable features. In the first place, brokers' loans have been reduced, according to reports, by 25 per cent. This improvement alone in the technical position is of great importance. Secondly, the asset values of industrial concerns which, as has been frequently pointed out, are much the largest in their career, have not disappeared. Third,—the financial position of companies has never been more favorable to weather a squall. Statements to the contrary notwithstanding, sales of copper have been in excess of production and the metal is working steadily into a stronger position.

We realize perfectly well that there must some day come a general deflation in the price of commodities that will carry stocks with them, but we doubt very much if it will come as quickly as a further continuous decline in the stock market from this level would predicate. Probably the propaganda against high prices and profiteering—though absurd in some of its phases—will have its effect in checking further excesses and allaying somewhat discontent. The shortage of goods, however, is too fundamental to permit a perpendicular decline at this time.

So while we appreciate that there must some day come a far greater reckoning, marketwise, than we have yet had, we do not believe this is at hand now. On the contrary, while it is true that the speculative fever has largely subsided, and people look at the matter through different spectacles than up to a month ago, we should expect a fairly substantial, even though temporary, reaction from the present wave of pessimism.

SUGAR.—As an interesting side-light on sugar, it is worth noting that the United Kingdom's consumption for June was, in round figures, 142,000 tons, as against 84,000 last year, and for the first half of 1919, 760,000 tons, as against 469,000. Such figures as these, balanced against a decrease in the world's production of about 2,000,000 tons—16,000,000 tons this year as against a pre-war production of 18,000,000 tons—in spite of the increase, meantime, of 1,000,000 tons in Cuba—is conclusive evidence that—statements to the contrary notwithstanding—there is an actual shortage of this commodity.

AMERICAN PNEUMATIC SERVICE.—Without any revenue from its mail tubes, the earnings of the American Pneumatic Company, as a whole, are naturally somewhat less than they were last year, but, fortunately, the income of the Lamson Company shows a very decided increase, which goes a considerable way toward offsetting the lack of income from the postal system.

The net earnings of the Lamson Company for the half year to June 30 were over $50,000 in excess of the same period of 1918; total earnings of the company for this period were, approximately, $138,000, which is over two and one-half times the dividend requirements on the First preferred stock, and is at the rate of more than $1 per share annually on the Second preferred.

The sentiment among independent organizations of business men seems to be crystallizing in favor of the restoration of the pneumatic mail tubes, and as—apart from the chief Cabinet official—the attitude in Washington seems to be also in favor of the restoration of the tubes, it is not at all impossible that the next few months will see some definite action taken along these lines.

Meantime, the Lamson Company—as indicated above—is giving a very good account of itself. The field of equipping stores with cash-carrying appliances, which has constituted practically the entire bulk of the company's business until recently, seems to have been pretty well covered, but in the development of conveying devices for industrial uses the company is opening up a field with very wide possibilities. Unlike the store service appliance, which has to be adapted to individual uses, the commercial conveyor can be standardized, which means, of course, a great saving, both to the manufacturer and the customer, and which is a much more satisfactory type of business.

The use of carriers in factories and industrial plants generally is almost unlimited, and it is believed that the company should build up in this line a very profitable business.

UNITED DRUG earned more in the first 6 months of 1919 than in the entire 12 months of 1916 and only about $600,000 less than in the 12 months of 1917. This statement illustrates perhaps as forcibly as anything, the extraordinary growth of this enterprise, and the progressive management. Earnings for the 6 months were at the rate of $20 a share for the common stock, as compared with $17.50 last year and $10.50 in 1917. It is particularly fascinating to speculate on the future earnings of this stock in view of the predictions made by President Liggett at the Stockholders Meeting of the probable growth of the business. Last year the Company did a volume of business of $51,000,000. This year it should exceed $60,000,000. If, as indicated, this should double in the next four years to, say, $125,000,000, with the same margin of profit—10%—that it has obtained in the past, it should mean an operating profit of $12,500,000. Deducting $2,500,000 for depreciation and taxes—which would be twice the figures for 1918—would leave a balance for the shareholders of $10,000,000.

The Company has recently issued $7,500,000 of First preferred stock to finance its rapidly growing business, but, presumably, before it could again double its sales, it would require additional capital. If we assume that it should need, say, $10,000,000, which it could easily raise at 7%—this would mean a total dividend charge before the common stock of about $2,300,000, leaving a balance for this issue of $6,700,000. On the 200,000 shares of common stock, this would be equivalent to $33 a share. Needless to say, such an income on a steadily expanding business would mean a good deal more than on one experiencing wide fluctuations.

COTTON MARKET.—At the time of writing Cotton futures have receded from 36.00 for October, 36.24 for December and 36.10 for January, to 30.30 for October, 30.25 for December and 30.20 for January.

In view of the Government report and the various reports of crop damage which were coming into the market, this seems like a pretty drastic decline and is far more severe than its sister commodity, Wool. The small increase of approximately 1,000,000 bales in stock could hardly account for so severe a drop and it is undoubtedly explained by the constantly declining price of exchange.

The normal value of pounds sterling on the exchange is $4.86\frac{5}{8}$. In November, 1915, while we were engaged in hostilities, sterling broke to $4.48 and at the present time is selling at $4.12, with important bankers predicting an even $4.00.

Every notch that exchange goes down, builds an additional barrier on exports and the spinner on the continent, will, of a necessity, confine his purchases to the lowest absolute need. On our side of the water, there has been an appreciable marking down of cloths, some of which are off from top figures from one cent to two cents per yard.

We understand that American Mills are confining their attention to goods sold at higher prices and are luke-warm in accepting orders based on present prices.

The technical condition of the future market has changed radically in the last few weeks and the large Bear interest which prevailed, must, of a necessity, have covered to a great extent.

Based on the prices at which other raw materials are selling, 30 cents for middling cotton can hardly be considered exorbitant. The price is about double the prevailing price existing before the war and we would of a necessity, expect fluctuations in the staple to be twice as violent as they are in normal periods. It would seem, therefore, that users of cotton, who are to anticipate their needs, could well afford to take on a portion at least of their requirements at the present time.

COLORADO FUEL & IRON reports a surplus for the stock in the second quarter of the year of $627,000, equivalent to $1.71 per share on the common, against $401,000 or a little over $1 in the first quarter of the year.

The company therefore shows a decided gain in the second quarter, and in this respect is an exception to the general run of steel companies; total earnings for the first half of the year were at the rate of $5.50 per share per annum, as against $7.50 in 1918.

There has not seemed at any time to be the margin of profit in this enterprise that there has been in most of the larger companies, the report for the last 7 years being as follows:—

	Total Oper. All Depts.	Total Net All Depts.	% Profit	% Earned on Common
1918	$48,233,575	$7,464,368	15%	7.51
1917	20,739,030	3,709,294	6	4.34
1916	40,004,883	8,233,318	10	11.15
1915	25,626,605	4,346,086	17	5.97
1914	16,578,040	1,765,058	20	———
1913	17,803,025	1,073,770	18	———
1912	24,315,888	3,620,266	15	4.53

It will be seen therefore that in the last seven years, which included four very prosperous ones in the steel industry, the Colorado Fuel & Iron has averaged but about 15 per cent. On the other hand, there is to be said that the company, during the last four years, has earned $30 per share for the common, of which it has paid out $4.50, returning $26.50 to the business.

In the matter of working capital, it has not made as large a gain as most, this item rising from $25,750,000 at the close of 1913, to $28,000,000 at the close of 1918. This should, however, be ample to take care of a business of $50,000,000 a year.

UNION PACIFIC.—Even in a generally depressed railroad market, it is a little difficult to account for the fact that the shares of this company sell to net rather more than any of the standard railroad stocks. Short of the confiscation of the railroad properties, it would be difficult to find any dividend better secured than this. For a decade past, the company has never failed to earn its present rate of 10%, and during this time has averaged rather better than 15%. Even under Government operation, this is one of the few companies on which the Railroad Administration has made money. The actual earnings for this system last year were 18½%, as against an income on a guaranteed basis of a little less than 13%. Thanks to an increase of $1,250,000 in June, as compared with the same month of 1918, when, as was the usual practice, the railroads lumped the deductions for accrued wage increase, the company for the first six months of this year shows net earnings just on a par with those of last, so that it is reasonably certain that it will again show a fair balance over the Government guarantee. Last year the Government made approximately $15,000,000 on the operation of this road.

General disgust over the railroad situation on the part of security holders has been so intense that one is in danger of forgetting that if there is ever any straightening out of this question, the Union Pacific would share in it to as great an extent as any railroad company. It should not be forgotten that this is one of the largest security holders of any company—holding in its treasury, unpledged, $71,000,000 par value of stock of other companies, and $119,000,000 of bonds. Even under present depressed conditions, the income from this source is only $2,000,000 less than the interest on the company's own bonded indebtedness. If there ever is a revival of railroad credit sufficient to allow a respectable income on invested value, the revenue from this source would be very greatly increased.

GENERAL MOTORS.—The annual report of this company for the 1918 year, showing as it did only 8.75% earned for the common stock, was on the face of it a decided disappointment. It was, however, pointed out at that time that 1918 was a year not only of transition and interruptions, but also of preparation for a great physical expansion through the absorption of such concerns as the Chevrolet and United Motors, which required a big increase in capitalization without an immediate corresponding increase in earning power.

That the company succeeded in getting into its stride very quickly is borne out by the earnings figures for the first quarter of 1919. Undivided profits after preferred and debenture dividends amounted to $16,596,658, which is equivalent to 11.3% on the $147,424,800 of common stock now outstanding. This is at the annual rate of 45%. The new debenture stock recently offered for sale did not, of course, share in the dividend distribution of the first quarter. The dividend requirement, however, on the whole $50,000,000 authorized would be only $3,000,000 a year, or slightly more than 2% on the common.

The balance sheet for March 31, 1919, showed a net working capital of $158,421,000, as compared with $124,038,206 at the close of 1918, and $57,615,746 at the end of the 1917 year. This figure is equal to par on the preferred and debenture stocks outstanding on that date and about $75 a share on the common. In addition plant and investments have a book value of $83,000,000, so that the net asset value of the common would appear to be approximately $130 a share. This takes no account whatever of "good-will, patents, etc." carried on the books at $35,714,893.

OIL'S NEW INDUSTRIAL IMPORTANCE.—It is axiomatic that war is both an energizer and fruitful in new discoveries. While it is always dangerous to generalize in the midst of an era of transition like the present it is only proper to call attention to the fact that in all probability one of the distinct results of the world war will prove to have been the discovery of new uses and values for oil. The British admiralty has not hesitated to admit that it was American oil in vast quantities which saved the day for the Allies. But that was a war emergency and it might well be doubted that a war usage could be carried over and become a peace time commercial necessity.

And yet to a certain extent the trend is strongly in this direction. For years the British mercantile fleet has had an assured freight in British coal. But the British coal industry is sadly demoralized. Coal exports from England which prior to the war ran at the rate of 70,000,000 tons per annum have dropped below a 20,000,000 ton rate.

The 1918 annual statement of the Royal Dutch calls attention to a 1919 shortage in world coal production of 100,000,000 tons. This shortage is far too great to be filled by oil. But oil is the only available substitute and as far as it will go must be utilized to fill this vacuum.

In the United States along the Atlantic seaboard it would appear inevitable that more and more industrial plants will turn to oil as a fuel. In fact if figures were tabulated they would show a surprising number of industries which have already done so. The tremendous annoyance, delay and interruption to production induced by the fuel shortage of 1917 and 1918 created a determination on the part of many industrial managers to avoid the possibility of duplication of such trouble in the future.

Oil as a boiler-room fuel at present compares in price not unfavorably with coal. And if the saving in labor be taken into consideration it is considerably cheaper. There is no ash to remove, no stoking and oil can be stored with little or no risk of deterioration. In several smaller industrial plants along the Atlantic seaboard recent experience has shown an economy in oil running as high as 30%.

The position of South American countries where coal in the past year has sold as high as $60 per ton, presents an unanswerable argument for use of fuel oil. The problem is mainly one of transportation as it is in the case of coal. But in a normal state of the world's tonnage freight rates on coal have been so low even from England to Argentine as to render coal not prohibitive in price. Unfortunately oil must be transported in special boats—tankers—which from the nature of their cargo are practically condemned to return home in ballast. On the comparatively nearby Atlantic coast oil as a fuel apparently has a very definite and expanding future. Over the longer distances to South America the question of future competition with British coal is a matter on which no precise opinion can as yet be expressed.

U. S. RUBBER reports net earnings for the first half year of 1919, after all charges and taxes, of $10,815,750, as compared with $10,242,365 for the same period in 1918. Last year the company reported a final balance for the 12 months after all charges, of $16,000,000, so that evidently most of the earnings were made in the first six months, but in 1917, it earned as much in the last half of the year as it did in the first. If the company can this year double in 12 months its earnings of the first six months, it would mean a total for the common stock, after deducting preferred dividends, of $40 a share, which would compare with $26 in 1918, a little under $25 in 1917, and 18½% in 1916.

A few years ago, there was some disposition to criticise the management, because of the rapid increase in indebtedness. It is true that in 1917 the company's own bonded indebtedness jumped from $16,000,000 to $60,000,000. It is only fair to point out, however, that there has been more than a corresponding increase in its working capital. In 1916 the company had a working capital of $49,000,000, against a total indebtedness of $36,000,000—a margin of $13,000,000. At the close of 1918, it had a working capital of $93,000,000, against a total indebtedness of $68,000,000—a margin of $25,000,000; that is, the first preferred stock at the close of 1916 was 20% covered by working capital after deducting bonded indebtedness; at the close of 1918, it was about 40% covered. Meanwhile, its generous expenditures have been more than justified by its income results. In two years, the operating income increased nearly 200%—or from $15,750,000 to nearly $46,000,000. Now that the company has firmly established itself, it will no doubt in the future finance its requirements through the issuance of stock, and at the same time effect a gradual reduction in bonds; in fact, the bonds of the subsidiary companies have in the last two years dropped from $20,807,000 to $8,600,000.

Its very broad plans for future growth can be judged by its recent financial announcements of proposal to increase the authorized preferred stock from $70,000,000 to $100,000,000, and the common from $40,000,000 to $200,000,000. Of the latter, $36,000,000, or the equivalent of the present outstanding capital stock, are to be offered the shareholders at par. It is announced at the same time that after a four years suspension, dividends will be renewed by declaration at 8%—to be increased next year.

Some idea of the scope of the company's operations may be gained from the announcement made this week that the company has 90,000 acres in Sumatra, of which 45,000 are fully planted; the planted acreage containing 5,000,000 trees. Even at that, the company's imports this year will probably be but about 12,000,000 pounds, as against a total consumption of 60,000,000 pounds, and it will be several years yet before it is supplying half of its requirements.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 820 August 29, 1919

THE GENERAL MARKET.—The improved position of the stock market is amply evidenced by its reception of news. To judge by newspaper headlines, the labor situation is as critical as ever. Not only do the shopmen reject the President's request, but the Steel Corporation employees present demands for a closed shop. Yet, at the worst, there was very little selling in evidence and the comeback has been sharp. While there is bound to be labor unrest for a long time to come, we are inclined to think that the critical point of the situation has been passed. There are two new and very encouraging features. For the first time, labor's insatiable demands are meeting with opposition in high quarters. Secondly, some of the men themselves, as evidenced by the action of the Midvale Steel employees, begin to realize that the limit has been reached, and that production and not shorter hours are the cure for our evils. It must be remembered that a small minority can make a loud noise. We believe that this has been the case in this instance.

One fact that is not to be forgotten is that this market has no sound foundation of savings to rest on. We believe that there is very little real absorption of securities. The war has consumed the savings of the world. To be sure, we have in Liberty Bonds, tangible evidence of indebtedness, which have inevitably been used to some extent to swell the volume of inflation, but these really represent past savings that have been used for destructive purposes, and can be redeemed only by future production and savings. We realize also that new issues still meet with favorable reception, but we feel that most of these are taken up with borrowed capital.

We are frank to say that at the moment we have no very strong convictions towards this market. We feel that the situation technically has been sufficiently improved, and enough stocks are still cheap to permit of a very fair upward movement, but we would not be understood as, by any means, taking the broad position that we did six months ago.

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PACIFIC MAIL STEAMSHIP.—The record of earnings attained by Pacific Mail Steamship Company in its half year to June 30 is encouraging evidence of the fact that despite lower rates for freight there is still a most satisfactory margin of profit in Pacific freight service, provided sufficient boats are in operation and regular schedules can be maintained. That sufficient boats are in operation has been due in large part to the fact that Pacific Mail for the first half of 1919 has been operating 12 steamers under charter for the Shipping Board, while two other steamers have been chartered by the company direct and four steamers of 3,700 tons deadweight capacity have recently been purchased for the Panama line.

Pacific Mail itself had until recently only eight steamers. One, the City of Peru, a boat 27 years old, has been sold to French interests. This reduction plus the purchase of four steamers for the Panama route gives the company a present owned fleet of 11 steamers of about 42,000 tons gross tonnage.

In addition 15 steamers are being operated either for account of the Shipping Board, on agent agreement, or under direct charter, so that the company's present service is furnished by a total of 26 steamers.

Their three main lines of service, Japan-China-Philippines, Manila-East Indies and the Panama line are all handling capacity cargoes and are all profitable. The Panama line now runs through the Canal to Baltimore so that the Pacific Mail is today operating in the Atlantic and can handle freight direct from India and the Orient to Atlantic ports and thence for trans-shipment to Europe.

Pacific Mail in the six months to June 30 realized total net profits from all sources after depreciation, but before war taxes, of $1,240,759. This figure compares with $1,001,914 for the same period of 1918, and represents an increase of $238,845, or 23.7%.

In the fiscal year to December 31, Pacific Mail's net profits after depreciation, but before taxes, was $1,772,760. The tax reserve called for $800,000, so that the final net for the 300,000 shares of stock (the only capital which the company possesses) was $796,999, or only $1,999 in excess of actual dividend disbursements.

In 1919 earnings for the second half-year should not show anything like the heavy decline they did in the second six months of 1918. Furthermore, a reduction in the tax item to about $500,000 is not improbable.

On the assumption of $2,000,000 net and $500,000 for taxes, Pacific Mail would earn $5 per share on its stock this year. On the assumption of a second half year as good as the first half and a tax item of $600,000, there would remain a balance of about $6.25 per share, which would exceed even the strong 1917 record.

Pacific Mail's present $3 dividend, therefore, seems well protected. The company measured by its

stock is selling marketwise for about $12,000,000, a figure which seems to give full recognition to the value of its working capital, steamers and terminal properties.

BUTTE & SUPERIOR.—Settlement has been made of the suit between the Clark Montana Realty Company and the Butte & Superior. In this suit the Clark interests under the apex law had laid claim to much the larger part of the "Black Rock" claim to which the Butte & Superior ore bodies were originally confined, and also for the value of the ore that had already been mined.

Under the terms of settlement, a new boundary line has been drawn, which will give the Clark interests about one-third of the territory in dispute, and by which they have received $2,500,000.

While this is, unquestionably, a very substantial settlement, it will leave the Butte & Superior with very large ore bodies east of the new line.

It will be recalled that, of recent years, this company has extended very decidedly the limits of its ore body into the "Four Johns" claim, east of the "Black Rock." It also leaves them the territory in which is located its new working shaft and surface improvements. In regard to the payment of the sum involved, it may be stated that after paying $2,500,000 the Butte & Superior has $1,000,000 of Liberty Bonds and other securities with no debts.

It should be distinctly understood that with the settlement of this suit, the Butte & Superior may henceforth operate entirely free from any legal entanglements. By the decision of the Supreme Court in the Minerals Separation case, the company may continue its present method of ore treatment, provided it uses more than 1% of oil. This it is now doing, and is securing as large a recovery and as high grade a product as at any time in its career. The settlement of the Clark suit leaves the company secure for all time in the possession of very valuable ore bodies.

The only point remaining to be cleared up is the amount of damages, if any, that it may possibly have to pay for the use in the past of less than 1% of oil. This is a matter of very complex accountancy and will probably take a very long time to settle. It is not believed, however, that it is possible that the company will have any great difficulty in meeting any possible payment on this account.

NATIONAL CONDUIT & CABLE COMPANY.—For the past 18 months earnings of National Conduit & Cable Company have been continuously unsatisfactory. Not only has the company failed to earn the interest and sinking fund on its $4,804,000 first mortgage 6% bonds, but it had accumulated a deficit of $1,483,000 during the 18 months to June 30.

The September quarter will show a smaller loss after interest, taxes and reserves than the heavy loss of $423,601 realized in the June quarter. At the same time the results will be in red ink figures and will show pretty conclusively that the company has not as yet turned the corner. For all of 1919 it is not improbable that National Conduit will experience a deficit after bond interest and after allowing for other deductions of close to $1,000,000, of which about 70% would be the contribution of the first half year.

National Conduit's poor 1918 earnings were largely due to miscalculation in handling munitions orders. Of the total 1918 deficit of $839,776 the loss on munitions contracts formed $744,090, or nearly 90%.

The heavier 1919 deficit will be in considerable measure the result of the prostrate condition of the brass industry during the first half of 1919.

National Conduit occupies a rather anomalous position in the metal industry. In a certain sense it is not a manufacturer at all. The work which it performs upon the raw material is so slight that the company is practically reduced to the remuneration of a middleman compelled by competition to accept a very modest commission. Furthermore, the company at present has little or no opportunity to make a speculative profit in raw materials, but in years gone by a goodly part of its earnings flowed from this source.

Another handicap under which the company labors is the fact that its plant and machinery equipment are decidedly antiquated. This makes directly, of course, for high cost production.

National Conduit was fortunately given a liberal working capital when organized. This working capital has naturally been drawn down by the losses of the past 18 months but is still in excess of the par of the first mortgage 6s.

The 250,000 shares of stock selling in the market for $4,000,000 represent the plant.

The hope for National Conduit would seem to lie in its sale to some stronger interests or in the modernization of its plants with increased diversity of output.

AMERICAN AGRICULTURAL CHEMICAL.—Three major factors explain the decline in common share profits of American Agricultural Chemical in its fiscal year to June 30 last.

In the first place the company made a very heavy increase in its outstanding common stock during the year. As of June 30 last there was outstanding $31,655,200 common, compared with $18,430,900 on June 30, 1918. This is an increase of $13,224,300, or 71.8%.

This relatively heavy increase in the junior stock is accounted for by the issuance of $9,484,400 new stock at par and by the creation of $3,739,900 additional common through conversion of debenture bonds. Quite obviously the effect of this large increase has been to dilute common share profits. On the basis of the same amount of stock as was outstanding at the close of June, 1918, American Agricultural earned between 11 and 12%, even after allowing for interest on the additional floating debt, which would have existed had no stock been issued last fall.

The second factor contributing to smaller per share profits was the decrease of $3,170,979, or 27.8% in total net profits from all sources. This decrease, assuming that none of it would have had to go for taxes and that it could all have been saved for dividends, is almost exactly equal to $10 per share on the $31,655,200 common outstanding on June 30 last.

The causes of this decline are to be found in the general condition of the fertilizer industry. The 1918–1919 fiscal year was an exceedingly difficult one for all fertilizer producers who are obliged to assemble their raw materials six months in advance of their selling season. The abrupt ending of the war found American Agricultural with large raw material inventories secured in many cases at the highest prices ever known. It was a task calling for no little generalship to convert these materials into fertilizer and sell the manufactured product at a satisfactory margin of profit.

In some sections of its extensive distributing territory American Agricultural found its sales restricted so that taken as a whole its gross sales in tonnage did not quite equal those of the record year to June 30, 1918. Price uncertainty accounted for this in part. Farmers expected lower prices and delayed or curtailed purchases because of this expectancy.

Another factor reducing total net profits was an increase of almost 50% in the cost per ton of fertilizer for labor, freight and taxes. And with the outside raw material market declining it was, of course, practically impossible to offset this increased cost by higher selling prices.

A third and less weighty factor explaining the smaller per share profits was an increase of $881,119 charged against earnings for depreciation and depletion. This is an increase of 62%, a relatively heavy addition. Had the depreciation charge been maintained at the same level as in 1918 common share profits would have been 10.6% instead of 7.9%.

During the late fiscal year the company paid common dividends of $7.50 per share, so that even on the heavily increased stock issue the dividend was fully earned, while on the average amount of common outstanding during the 1918–1919 fiscal year share profits amounted to 10.33%. The course of profits and percentage earned on the average amount of common outstanding yearly since 1913 are shown below. It is worth noting that up to the late year there had been an increase in common stock since June 30, 1913, of only $100,000, a fact which emphasized the proportions of the 71.8% increase in the fiscal 12 months recently ended. The figures follow:—

Year to June 30	Total Income	Balance for Bond Interest	Net for Stock	% on average common outstanding during year
1919	$8,206,128	$4,943,455	$4,158,670	10.33%
1918	11,377,107	8,987,423	8,111,018	35.01
1917	8,709,215	6,431,035	5,546,355	21.11
1916	8,174,828	6,328,920	5,445,527	20.57
1915	6,225,121	4,513,239	3,675,145	10.93
1914	5,372,378	3,678,198	3,065,715	7.68
1913	3,657,389	3,103,958	2,592,726	5.23

As of June 30 last, the Company's current assets exceeded its current liabilities by $41,891,122, thus making a most satisfactory working capital, an increase of $10,197,779, or 32.1% during the year. Of this increase $9,484,400 represented the proceeds of additional common, while $713,379 was apparently derived from surplus earnings. It is also interesting to note that working capital is now a few hundred thousand dollars in excess of the par of the $12,803,100 bonds and $28,384,200 preferred stock. Further gains in working capital will begin to measure against the common stock.

The year of transition just ended will undoubtedly be followed by a period of stabilization, including an increase in tonnage sales, the benefit of lower cost raw materials, resumption of the use of potash and a greater control over the cost of production.

TODD SHIPYARDS.—Although the final net profit for the year of $1,418,000 was equivalent to but $16 per share on the 89,630 shares outstanding at the close of the year, anything more than a casual glance at the income statement will quickly reveal the extreme conservatism with which the company's earnings were handled. Of total net earnings of $12,293,000, no less than $10,874,000 were deducted for interest charges and reserve for depreciation, amortization and taxes.

As a result of this and the sale of a Pacific shipyard, the company's fixed assets which, at the close of the previous year, stood at $13,388,000, were marked down at the close of the 1919 fiscal year to $8,943,000 and bonded indebtedness was reduced from $8,720,000 to $4,888,000.

The principal item deducted was one of $8,784,000 as reserves for amortization, obsolescence and taxes. In addition there was a deduction of $891,000 as a reserve for depreciation.

The chargeoff in the Balance Sheet as reserves for depreciation, amortization and obsolescence was $4,733,000. The inference seems to be that the company's tax bill for the year would amount to something under $5,000,000.

Adding to this the other charges for interest, loss on sale of property, etc., one can scarcely escape the impression that while quite properly not shown as divisible income for the shareholders, there was an actual net improvement in the financial position of this company as a result of the year's operations equivalent to no less than $50 per share.

Todd Shipyards is not to be confused with the ordinary ship construction enterprise. This is, essentially, a ship repair business and for this purpose it has decidedly the largest facilities in this country. There is already a shortage of ship repair capacity in this country and with the increase of the American Marine from a pre-war figure of about 2,800,000 tons to the total of 13,000,000 tons that is promised by the close of next year—much of it hastily built—it seems quite certain that there is bound to be a full capacity business in this line for years to come.

CHESAPEAKE & OHIO.—During the year 1918, the Chesapeake & Ohio made a surprisingly good showing of earnings, despite the fact that general conditions as affecting the transportation industry were anything but favorable. Indeed the experience of this company during the past five years offers a pleasing contrast to the experience of the vast majority of the railroads of this country.

For the seven years prior to 1916, gross revenue advanced from $26,600,000 to $39,000,000 and the balance available for the stock maintained a fairly steady average around 6%, the highest being 10.01% in 1910, and the lowest 4.25% in 1915. In 1916, the gross jumped to nearly $50,000,000 and the percentage for the stock to about 11%, a record which was slightly bettered in 1917.

In 1918, under Government operation, the Chesapeake & Ohio was assured a compensation of at least $13,226,983. This figure is the average net income for the three-year test period. No formal contract has as yet been signed, although the road claims an additional compensation of a little over $1,000,000 annually. After making all allowances for other income and deductions for interest and other charges, the final balance for the $62,792,600 of stock amounted to $4,837,506, or 7.70%. This compared with current dividend requirements of only 4%. Of course, if the company is allowed any of its additional claims, the percentage would be increased.

The Chesapeake & Ohio, however, would have been considerably better off last year if there had been no such thing as Government control, or Government guarantee of income. The actual net operating income, comparable to the Federal compensation of $13,226,983, was $17,218,676. If all of this had accrued to the company, the percentage available for the stock would have been over 14%—the largest amount ever reported. As it was the road earned a profit of nearly $4,000,000 for the Government.

One of the most encouraging features of the report was the way in which the operating ratio was held down. It amounted to only 73.4% in 1918, as compared with 69.7% in 1917. Operating expenses increased 42%, or in about the same proportion as was the case with other roads operating under similar circumstances. Gross, however, showed such a splendid increase, from $54,600,000 to $73,700,000 that the greater operating expenses did not have an adverse effect upon net.

Earnings for the current year, while they probably will not by any means equal those of 1918, are nevertheless making a fairly satisfactory showing. For the seven months to July 31, net operating income totalled $6,267,747, as compared with $6,452,238 last year. Of course, in 1918, the results of the last half year were benefited greatly by increased freight and passenger rates. Under favorable conditions, however, a net of at least $12,000,000 might be looked for in 1919, which should leave 5% or 6% for the stock. The Chesapeake & Ohio, therefore, would seem to be in as strong a position as almost any company to face the many uncertainties in the railroad outlook.

PACIFIC DEVELOPMENT CORPORATION.—The recent offering to stockholders of Pacific Development Corporation, which closed on August 15, has provided the company with approximately $2,000,000 of additional cash capital. This money is being used primarily to strengthen the position of the subsidiary trading corporations.

Arrangements have just been completed to take over the firm of Meurer Freres. This company has built up over a period of 15 years an extensive export and import business between France, southern China and Indo-China. The China business of the new acquisition will be consolidated with that of Andersen-Meyer Company, Ltd., the Chinese subsidiary of the Pacific Development Corporation. Meurer Freres will become the trading subsidiary of Pacific Development for France and southern Europe.

The acquisition of this new company gives Pacific Development an important trading company in intimate touch with trade conditions existing between the Orient, France and southern Europe, and in time should prove a very considerable earner.

The net earnings of Pacific Development for its fiscal year to December 31, 1919, will be calculated on approximately 160,000 shares of stock, compared with 115,454 outstanding, as of December 31 last. The promise is that earnings will exceed by several hundred thousand dollars the final net after taxes and all prior deduction of $1,736,905 realized in the 1918 fiscal period. On the increased stock it seems fair to expect share profits very closely approximating the $15.04 earned in the December 31 twelve months.

At the close of 1918 Pacific Development has a book value based on its consolidated balance sheet of $77.68 per share. This was on the basis of 115,000 shares of stock. With the present stock capital of 160,000 shares the book value figures out at approximately $70. This book value, as a result of the strong earnings of 1919, should easily be increased to $80 per share by December 31 next.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 822 September 12, 1919

THE GENERAL MARKET.—During the past week the market has continued its erratic course with sudden and violent fluctuations in special stocks, although it is rather noticeable that on the reactions the activity lessens, to be followed by a marked increase in trading on the upward movements.

There have, indeed, been some favorable developments in the last several days. Perhaps the most important was the statement by the Secretary of the Treasury that current income is now in excess of current expenditures, and announcing the discontinuance until after October 15, anyway, of the issuance of the semi-monthly certificates of deposit. In short, the tide appears to have turned in the matter of Government expenses and financing—a factor which should have a beneficial influence not only on the money market, but also on the price of Government Bonds and so, indirectly, on the price of corporation bonds.

An increase of over 530,000 tons in the Steel Corporation's unfilled orders during August exceeded the most optimistic predictions. Indeed, it is reported that the mills of this company are now operating at 90% of ingot capacity. How great has been the improvement in the steel industry is shown by the fact that since May, when orders reached their lowest level, there has been a total gain of 1,826,793 tons in forward bookings. The steel industry, therefore, which for months lagged behind the other lines, is now apparently on the road to prosperity.

On the other hand, the labor situation which, a week ago, looked considerably more encouraging with the prospect that the cooler and saner heads among the union leaders would postpone, for a time, any hasty and ill-considered action, is now assuming a more ominous appearance. The police strike and riots in Boston, the decision to call a steel strike on September 22, and the threat of a nation-wide coal miners' strike in November, indicate that the radical element is still in control. If a several months' truce, as proposed by some of the labor leaders to await the results of the campaign to increase production and reduce the cost of living, or a conference between labor and the employers as proposed by the President are not possible, then probably the matter will have to be threshed out now. As long as organized labor can decrease its hours of work and increase its pay by merely a threat to strike, with no regard to fundamental economic conditions, little progress can be made toward the restoration of normal industrial conditions. Some big strike may have to be fought out to a finish and to the complete defeat of the hot-headed, trouble-making element—a thing which, in the long run would probably be for the best interests of all concerned.

The agitation to reduce the cost of living has met with some results in steadily dropping prices for grain and provisions and cotton. Declining commodity prices, however desirable from the standpoint of the consumer, invariably produce a decreasing margin of profit for the manufacturer and merchant and lead to a distrust of the future, which causes general business to hesitate and slacken. Some evidences of such hesitancy are already discernible and might easily become serious unless something is done speedily to remedy the foreign exchange situation and protect our export trade. The healthy decline in commodity prices must be gradual and the result of increased production, and not sudden and the result of a shutting-off of external markets.

In ordinary times any material advance in the stock market in the face of social unrest, declining commodity prices, and a strained banking condition which, with the demands for crop-moving a little later is almost certain to become more strained, would be practically out of the question. During the first part of the year, however, it has been proved possible to finance a big bull market on a tight money market. Certainly the public has lost but little of its speculative enthusiasm and appears to be anxious to bid up prices on the least provocation. Consequently, for the present, we are likely to have a market which should prove a profitable purchase on the breaks, and which, in case of any decidedly favorable news, might very well enjoy an advance of considerable proportions.

STUDEBAKER CORPORATION.—Studebaker Corporation has now progressed far enough in its fiscal year to justify the assertion that net profits for the 12 months to December 31 next will eclipse any former record, even the high water mark of 1915.

For several months Studebaker has been shipping out at the rate of 4,000 cars per month. Its total net profit, including the earnings of its horse-drawn vehicle division have been running at the rate of $1,000,000 net per month.

The company is booked ahead at capacity until mid-November. For all of 1919 Studebaker should produce between 45,000 and 47,000 cars.

Its 1920 output will be very greatly expanded. Sometime in March next, as things now shape up, the big new plant at South Bend, Indiana, should be in production. It will manufacture the new four cylinder type, which will come on the market at an attractive price and which it is believed will prove immediately popular. This plant will have a capacity of 40,000 to 50,000 cars, so that in 1920 Studebaker is in line to double its output in number of cars, although, of course, not its gross value.

In the fiscal year to December 31 next, Studebaker promises to earn close to $30 per share for its common after deduction of taxes, interest and 7% dividends on the $10,775,000 preferred. This would compare with common share profits of $10.40 in 1918 and $27.45 in 1915, its previous banner year.

It may be recalled that in December last Studebaker, taking counsel of its fears rather than its confidence, sold $15,000,000 7% serial notes. The proceeds of these notes paid off $9,525,000 floating debt and left a balance of about $4,000,000 to apply to the construction of the South Bend plant. The plant will, of course, cost considerably more than this, but any excess can be comfortably financed out of undivided profits of 1920.

In fact, could the company have foreseen the sharp expansion shown in earnings this year it would doubtless have issued much less than $15,000,000. At present the company has $4,000,000 to $5,000,000 cash out on interest and owns good-sized blocks of Government securities.

The first maturity of the serial notes is January 1, 1921, when $1,000,000 come due. It is safe to assert that the company will have pretty completely anticipated this maturity before the end of 1920.

Studebaker, as of December 31 last, had an asset value for its $30,000,000 common of $99.88 per share exclusive of good will. This figure will apparently be increased by at least $25 during 1919, making a total asset value at the end of this year of $125 per share. This is substantially in excess of its present market price, so that the statement appears justifiable that Studebaker is one of the few automobile stocks which is selling at or below its asset value and which has not discounted in its price its earning power. This statement would appear true despite that fact that the dividend rate is only 4%.

UNITED STATES INDUSTRIAL ALCOHOL.—One of market enigmas is United States Industrial Alcohol. The company's directors less than three weeks ago voted to call a special meeting of shareholders in October to approve a 100% increase in common stock raising that issue from $12,000,000 to $24,000,00. The new stock is to issue at $70 per share, thus giving the company $8,400,000 in cash.

The official circulars issued by the company to shareholders contain the most meagre description of the purposes for which the new money is desired. Beyond the general statement that the funds will be required for additional working capital no specific assertion is made.

It requires no stretch of the imagination, however, to accept the assertion as true that additional working capital has been very much needed for at least three years. The following figures seems to clinch this argument:—

Working Capital

December 31	1918	1917	1916	1915
Current assets	$15,460,306	$11,213,075	$6,620,697	$5,871,887
Current liabilities	13,505,865	8,816,290	7,878,921	1,572,772
Net working capital	1,954,441	2,396,785	*1,258,224	4,299,115

*Deficit.

The amazing thing about United States Industrial Alcohol has been its ability to roll up profits from the common in the three years to December 31 last of better than $142 per share, and yet show an improvement of only $3,212,665 in working capital position. Or stated in a more practical way, one of the surprising things about the company has been its ability to earn so much money, handle so large a volume of gross, keep virtually clean of floating debt and still possess less than $2,000,000 of working capital.

If all of the new money goes into quick assets it will increase them to about $10,500,000. The chances are, however, that a large portion will be employed in the merchandising of the new fuel gas—Alco. At one time it was planned to erect 1,000 distributing stations throughout the country to handle this new product. But whatever is done means a considerable investment in the mechanism of distribution.

Alco gas is a commercial success, but it has taken longer to get it to market than seemed at one time probable.

The 1919 profits of Industrial Alcohol will be satisfactory, probably larger than any year, except 1917 and 1918. Sales of denatured alcohol have been large, particularly for export. There is not the slightest doubt that the present $16 dividend on the common will be fully earned. With 100% more common out it is generally assumed in financial quarters that the rate will be cut to $8 per share. It may be well to suspend judgment on this point until the earning possibilities of the new motor fuel are better understood.

INTERNATIONAL AGRICULTURAL.—It is quite probable that the final figures for its June 30 fiscal year will show that International Agricultural Corporation made the best record of any of the larger fertilizer producers. The comparative decrease in net profits of American Agricultural has already created considerable comment. The slump experienced by Virginia Carolina Chemical in its May 31 fiscal period was every whit as great so far as its fertilizer business is concerned.

But Virginia Carolina is largely a cotton oil business. Certainly it is fair to state that of the $136,000,000 gross sales achieved in the late year fully $80,000,000 represented the cotton oil end. And this branch was substantially as profitable in the 1919 as in the 1918 fiscal period.

On the other hand, International Agricultural has done especially well, when it is recalled that its fertilizer profits might have been compromised by the disturbed market for sulphuric acid which followed the signing of the armistice. The company has had its acid situation continuously well in hand and has benefited in recent months by a steady increase in demand at rising prices.

It is understood that actual net profits for interest and dividends, but after taxes for the June 30 fiscal year, will be 90% as large as in the 1918 year. The company, during the 12 months just ended, charged a large sum against earnings on account of possible losses in its German potash mine. This mine is now practically written off the books. It originally stood at over $1,500,000.

Just what the final auditing will leave for the $13,055,500 preferred is not fully settled. There were heavy charge-offs in the 1918 year as well. It would not be surprising if the complete figures for the June 30 year disclosed a balance equal to the $14.20 per share earned on the preferred in 1918.

International Agricultural has improved its working capital position by $1,500,000 during the last 12 months. It now has a balance of net quick assets which is fairly adequate. If its advances to subsidiary companies be considered as a current asset the resulting working capital is within $500,000 of the par of its bonds and in another six months will easily equal the par of bonds for the first time in its history.

INTERNATIONAL NICKEL.—The publication of the report for the quarter ended June 30, 1919, furnishes ample reason for the passing of the common dividend three months ago. The company's fiscal year ends March 31, so that the June quarter represents the first quarter of the current fiscal period.

Net profits after taxes, depreciation and all other deductions, amounted to $174,929, which after deducting the quarter's preferred dividends of $133,689, left a balance of $41,240, or only 2 cents a share for the $41,834,600 (par $25) of common stock.

The year ended March 31, 1917, was the International Nickel Company's big year. The operating income amounted to $16,728,913, and the balance earned for the common was equivalent to $7.78 per share on the present stock. In 1918 operating income declined slightly to $15,791,485, but owing chiefly to excess profits taxes which were non-existent in the previous year, the share earnings dropped to $5.79. In the 1919 fiscal period, operating income decreased to $11,186,305 and share earnings to $3.22. A more striking picture of the course of this company's recent earnings may be obtained from the quarterly report, as follows:—

	Operating Income	Net After Charges
First quarter, 1918	$3,994,250	$3,540,359
Second quarter, 1918	3,838,506	1,846,365
Third quarter, 1918	3,905,622	1,736,918
Fourth quarter, 1918	3,244,011	1,389,175
First quarter, 1919	*	850,172 (Estimated)
Second quarter, 1919	1,012,855	174,929

*Not reported.

During the first quarter of 1918 no allowance was made for excess profits taxes. It is for this reason that the net for that quarter makes so much better a showing, relatively, than in subsequent periods. Nevertheless, the decline has been fairly steady since the first of last year and since the signing of the armistice last November the corporation's earning power seems to have approached the vanishing point.

In the first half of this year practically all of the metal producing concerns had pretty hard sledding. With the cessation of hostilities the bottom fell out of the market, and in the case of the copper mines, operations were curtailed about 50%. International Nickel is said to have cut down operations to a 33⅓% basis. There was almost no foreign demand for nickel and domestic demand has been very slow to pick up so far. Furthermore, production costs were very close to the top during the first half of the year.

However, such a poor showing by the International Nickel Company appears to be more discouraging than it would in the case of many other metal producers. This corporation's business has never been in the past subject to such violent fluctuations as that of the rank and file of the copper companies, for instance. Until payments were passed last June, the common had a continuous dividend record extending back to 1909.

In recent weeks, it is reported that some improvement has taken place in the domestic demand for nickel, and with a further improvement in general business, both foreign and domestic sales should steadily improve. Nevertheless, no immediate resumption of common dividends would seem likely. The company still has a large supply of unsold metal on hand, as witness an inventory item of $8,896,101 on June 30, as compared with $9,692,421 on March 31, and $4,188,371 on March 31, 1916. Net working capital and cash on hand, too, have suffered a considerable decline, the former now standing at a little over $9,000,000 as compared with $12,000,000 two years ago, and the latter at $1,849,203, as against $6,227,012 in 1917.

AMERICAN WRITING PAPER.—Earnings of American Writing Paper, which were poor during the half year to June 30, have shown a decided revival in the past two months.

The company at one time during the spring was operating at less than 30% of capacity. Ordinarily the summer months are a period of slack demand for writing papers, but 1919 has proved an exception to the rule, with the result that a deficit after interest and depreciation of something over $400,000, which had accumulated during the six months ended June 30 had been practically eliminated as of August 31.

Net profits are now established on a basis sufficient to show interest and depreciation fully earned for all of the fiscal year to December 31 next, with a prospective balance for the $12,500,000 preferred of between $4 and $5 per share. These earnings would compare with preferred share profits in the December 31, 1918, year of $3.97 per share.

While American Writing Paper profits have recorded this sharp recovery it is entirely premature to consider the preferred stock as within sight of dividends. For one thing the company has only recently completed the extension of its bonds. The sinking fund on these bonds is likely to absorb for several years any surplus profits not needed for plant or working capital. This sinking fund calls for fixed payment of $120,000 per annum, plus 25% of all net earnings remaining after deduction of interest, depreciation, taxes and other prior deductions. This 25% payment is to continue until bonded debt has been reduced to $10,000,000 and then is automatically reduced to 15%.

The company, however, has greatly strengthened its management and executive organization. It has a firm grip on costs and in the course of some years it is possible that its earning and bond situation will justify the payment of preferred dividends. But this is a matter of several years and not a few months.

COLORADO & SOUTHERN.—Under Government operation last year, and even during the current year to date, the Colorado & Southern Railway has made one of the best records of any of the minor railroad systems.

The standard return to be paid by the Government for use of the road during last year amounted to $2,481,211. After all additions for other income and deductions for interest and other charges, there remained a net income of $1,376,371. Allowing for the 4% dividends on the $8,500,000 each of first and second preferred stock the balance of $696,371 was equivalent to 2.24% on the $31,000,000 of common stock. In 1917, the company showed earnings of 5.85% for its common stock.

These earnings are for the Colorado & Southern alone and do not include the Fort Worth & Denver City, the Wichita Valley Railway, or the Denver-Interurban R. R., which had previously been included in the company's income statement. Including these other companies the 1917 earnings were equal to 9.32% on the Colorado & Southern common stock. And taking account of their guaranteed income the balance for the parent corporation's junior stock issue under federal control would be increased about .8%, or to over 3.00%.

On actual operations during 1918 the parent company earned $534,840 in excess of the Government guarantee, thus being one of the comparatively few roads to make a profit for the Railroad Administration. The subsidiaries, however, did not do so well, so that the actual percentage earned for the common stock would figure out about 4%.

For the first seven months of 1919, the whole Colorado & Southern system reports a net of $2,462,007, as compared with $2,067,614, for the same period in 1918. In view of the poor earnings being reported by most of the railroads this year, even some of those which last year earned more than the federal guarantee—this showing is decidedly satisfactory, indicating, as it does, actual earnings for 1919 more than sufficient to cover the 4% dividends on both classes of preferred stock. No matter what the outcome of the railroad problem, these shares would seem to be in a fairly strong position to face the uncertainties of the future.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

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No. 823 September 19, 1919

THE GENERAL MARKET.—In the face of more uncertainties regarding the future than have developed since the improvement in prices and general business set in last spring, the market has in the past few weeks really given a very good account of itself.

The labor question has been to the fore, particularly the possibility of a steel strike and the course of prices has proved very sensitive to developments on that subject, declining sharply on statements that a walk-out would be called and again advancing on denials. Indeed, the situation has been quite confused, assertions and contradictions following each other closely. As we write it looks as though the strike would take place next Monday. It has long been considered axiomatic that strikes have little effect, market-wise, and in ordinary times and in the case of local labor trouble this has been true. But the present instance is somewhat different from most of its predecessors, not only because a strike in the steel industry, which is by no means completely unionized, might involve many allied industries, but also because of the fact that, in view of the course of recent events, this particular case is quite generally regarded as striking much deeper than the mere question of the closed or open shop.

Of the final outcome of a test as to whether imported radicalism is to prevail over conservative democratic institutions, we can have no doubts. Such a test, if it is to come now, might have its disturbing features, but a settlement permitting the resumption of steady production without the loss due to constant agitation and strikes would, perhaps, in the long run, be the best thing that could happen.

Exchange on the leading countries of Europe, with the exception of England, made new low records during the week. The passage of the Edge foreign finance bill should do a good deal to help the situation, but it is doubtful if it can completely remedy it. Very likely the American manufacturer will have to forego some expectations of a tremendous European export trade, and as time goes on may have to contend with more and more foreign competition.

The ease in the money market at this time of year has been the cause of more or less surprise. It is probably due, partly to the return of Government income tax payments to the banks, and also to the fact that the decrease in the indicated wheat crop has left the Western banks with a surplus of funds which have found their way back to New York. A decrease of 300,000,000 bushels in the wheat crop is a great disappointment, but the good corn and other feed crops hold out hope of a more plentiful supply of meat and dairy products.

There are almost always two sides to the market. If all the news were optimistic, and no clouds were on the horizon, the public would be scrambling for stocks and prices would be much higher. While various factors are existent, which would seem to preclude the possibility of anything approaching the rise which took place from February to July, neither should we expect to see any very pronounced decline in the near future. The broad movements in security prices are usually accomplished in a comparatively few weeks or months. The rest of the time the market is backing and filling, and it is in one of these periods that we seem to be now. The demand for goods of all sorts is still far from satiated, and barring a social upheaval, prosperity should be general for some time to come. And it is well to remember that when all the uncertainties are eliminated prices are apt to be higher than where they are present.

UNITED FRUIT CO.—By the close of its current fiscal year on December 31 next (a 15-months' period), it is probable that United Fruit will have extinguished its entire bonded debt, including even the contingent liability of $3,200,000 Nipe Bay Co. 5% mortgage bonds falling due in 1925. Funds have been set aside to pay off these bonds as fast as they can be cancelled.

Few persons appreciate the significance of what the United Fruit Co. has been doing in the direction of freeing itself from all bonds. On September 30, 1914, the close of its then fiscal year, funded debt including the Nipe Bay 5s stood at $35,781,000. In five years and three months it promises to have entirely disappeared. To accomplish this result the company has issued but $10,000,000 additional stock, the balance of over $25,700,000 coming directly from profits. This sum in turn is equivalent to slightly more than $51 per share on the $50,316,500 stock outstanding on September 30, 1918.

The past few years have furnished many examples of industrial companies which have extinguished or greatly whittled down their bond debt. But United Fruit is, perhaps, unique in that instead of being in the position where bonds and stocks were nearly equal in amount it has virtually arrived at the point where the $50,000,000 stock owns the entire property.

During the war with the United States and British Governments taking 83% of its tonnage, United Fruit was obviously obliged to curtail fruit importations. The logical sequence of events was that less

than normal amounts were expended on tropical fruit plantations. Obviously there was no point in expending money to raise crops which could not be marketed because tonnage was lacking.

But conditions are fast becoming normal. Only two of its American boats are unreleased. And to bring back its plantations to proper producing capacity the company in the next year or 18 months will expend something in excess of $5,000,000. All of these funds can be easily provided from surplus treasury assets or earnings to be made during the period of tropical expenditures.

Its English department, the Elders & Fyffes Co., lost a large portion of its tonnage during the war, but the monies realized from these losses have been segregated and will go into new tonnage as opportunity offers.

It is, of course, generally understood that in the 1919 year United Fruit is having the largest earnings in its history. Net profits are fully 30% in excess of a year ago, but due to the change in the fiscal year it will be February or March, 1920, before any actual figures are available.

Back in 1914 United Fruit had a very meagre working capital of but $3,228,400. On September 30, 1918, net quick assets had climbed to $27,590,064, including British and United States securities. By the end of December next the same test should show close to $35,000,000 of net quick assets, after full allowance for some $12,000,000 of war and excess profits taxes.

The transformation in United Fruit in five years has been a remarkable one. In reduction of bonded debt and gain in working capital it amounts to approximately $100 per share on the stock.

TORRINGTON.—This company is one of the smaller concerns whose stock participated to a considerable extent in the "war order" boom of 1915 and 1916. Since that time it has not been very much in the public eye, but the shares have maintained a level materially above the pre-war level and have recently equalled their high record.

The Torrington Co. issues no reports as to its business except a brief annual statement and only in the last two years has any report as to operating income been given out. The record of these two years, however, appears to amply justify the consistent strength in the stock.

In the year to June 30, 1918, the operating concerns in this country and Canada—but not including the two British, the South American and German companies—whose final figures had not been received at the time of issuance of the statement, earned a net balance of $929,228, after deducting $70,000 for preferred dividends and $510,899 for income and excess profits taxes. This sum is equivalent to $6.64 per share for the 140,000 shares of common stock outstanding. The 1919 report includes the earnings of the American and Canadian subsidiaries for 1919 and of the British and Argentine subsidiaries for 1918. Nothing has as yet been heard from the German company. On this basis the net operating profit for the year amounted to $2,892,615 After allowing $70,000 for preferred dividends and $856,000 for income and excess profits taxes, there remained a balance of $1,966,615, or 14.04 per share for the common stock. The amount charged off for taxes was equivalent to over $6 per share on the common.

The balance sheet for June 30, 1919, shows a net working capital of $4,490,470, as compared with only $3,532,405 twelve months before. Cash and United States and Canadian Government bonds totaled $2,093,868, of which nearly half was cash. In 1918, these items totalled only $1,128,665. Present net working capital, after allowing par for the preferred stock is equal to $25 a share for the junior stock issue; and the total actual asset value, not including the $1,942,537 valuation for good-will and patents, is $50 per share.

Torrington common is now on a 16% annual dividend basis, made up of 12% regular and 4% extra. Since the par is $25, this amounts to $4 per share. The chances are that the earnings of the British and Argentine subsidiaries in 1919, and in the current fiscal year, will prove to have been as large, if not larger, than those of the period ended June 30, 1918. These earnings still remain to be added to the income statements of future years. Furthermore, any favorable developments in connection with the German company will be so much clear gain.

Therefore, with the continuance of generally prosperous conditions in this country, the $4 dividend rate would appear to be pretty well secured, and might even be increased without jeopardizing the financial position of the company.

CHICAGO & NORTH WESTERN.—During the year ended December 31, 1918, the corporate income of the Chicago & North Western Ry. showed a balance for the $145,157,519 of common stock equivalent to 8.67%. This is figured on the basis of a guaranteed rental of $23,201,015 received from the Government for the use of the road. This percentage compares with 10.47% reported for the common in 1917 and 14.12% in 1916, and furnishes a good margin over and above the current 7% annual dividend requirements.

Actual operating income, however, for 1918 makes a very disappointing exhibit. Gross revenues, to be sure, increased from $108,264,983 the year before to $127,295,678, but expenses advanced to such an extent that net operating revenue amounted to only $12,441,437, as against $24,397,856 in 1917. The Government, therefore, through its operation of this road entailed a loss of, roughly, $10,750,000 and if it had not been for the Federal guarantee the company would have earned only about 1.25%.

In 1917, the cost of doing business consumed $78,758,988, or 72.75% of the gross; in 1918, it consumed $109,498,572, or about 86% of gross. For ten years previous the operating ratio averaged less than 70%,

the highest being that of 1917. Certainly no road in the country has ever been maintained in better condition than the North Western, so that the jump in expenses must be due to higher wages and prices for all materials—not to mention the possibility of extravagance on the part of Federal management.

Manifestly, on the basis of the last year's results the common dividend could not be continued without the help of the Government compensation. In view of the prospect that, at the close of the year, the railroads will be returned to private operation, actual current earnings become increasingly important.

For the first seven months of the current fiscal period net operating income was $6,952,086, as compared with $5,327,240 for the same seven months of 1918. Over a number of years this road has earned about 48% of its annual net income during this period. If the same percentage should hold this year, the total net might be expected to come pretty close to $14,400,000. As a matter of fact, however, it seems likely that this year the last five months will produce much more than half of the 1919 net income. During the first part of this year general business throughout the company's territory was relatively quiet. The widespread improvement in trade conditions has already increased traffic, and the movement of the grain crop this fall should still further add to the freight movement—both directly and indirectly as a result of high prices received for the crop.

Up to May 31, the net income amounted to only $1,676,375. In June over $2,000,000 net was reported, and in July, over $3,000,000 with the best months in the year still to be heard from. Assuming that an average of only $2,000,000 a month can be obtained, the indicated annual earnings for the common stock would be from 4% to 5%—which, while not sufficient to cover the dividend, is still very much better than the 1918 record.

One of the most encouraging features in connection with the Chicago & North Western, and one which may increase the final earnings for the year above the indicated 4% or 5%, is the declining operating ratio. In June, expenses consumed 78% of gross and in July, only about 73.5%. This latter figure is not much above the normal and compares with 86% for 1918.

LOOSE-WILES BISCUIT CO.—Although dividends on Loose-Wiles $8,000,000 common are not immediately in prospect, the company is rapidly putting its financial house in order and is laying a foundation which should be reflected in sustained earning power for the common.

It is understood that the company has reduced its floating debt to considerably less than $1,000,000, compared with $3,875,000 on December 31, 1917. It is not improbable that another six months will witness the extinguishment of the floating debt balance.

After that the logical step would seem to be the payment of the accrued dividends on the small issue of $2,000,000 second preferred now amounting to less than $650,000.

So far as the nature of its business is concerned there is no fundamental reason why Loose-Wiles should not enjoy as great relative prosperity as National Biscuit. The companies are competitors in the fullest sense and closely parallel each other in their lines of production.

Loose-Wiles gross sales in 1919 are running at the highest rate in its history and should reach this, a total of $40,000,000. In 1912, its first year of operations, gross sales were under $12,000,000.

Like National Biscuit, Loose-Wiles has avoided creation of any bonded debt. So far as it had surplus resources it has expanded its plant system out of earnings. The drag of the Long Island plant was a very heavy one. But today this plant is one of the largest contributors to net earnings.

NORTH AMERICAN CO.—North American Co. will, doubtless, achieve the distinction of being one of the comparatively few important utility propositions to pass through the war period without being compelled to reduce its dividend.

The company has paid dividends of $5 per share continuously since the beginning of 1910. Furthermore, its earnings, while never spectacular, have in no year fallen below the $5 mark.

In its December 31, 1918, year North American Co. earned a balance on its $29,793,300 stock of 5.38%, compared with 6.05% in 1917 and 7.26% in 1916.

There has been a decided improvement in North American Co. earnings this year and for the 12 months to December 31 next the company should closely approximate a stock balance of $8 per share. If finally realized this would represent the largest share profits during the 10-year period that the $5 has been in force.

There has been a somewhat general feeling that North American Co. was largely a street railway proposition. This feeling and the general low repute to which utility stocks have fallen have combined to obscure North American shares in the market. As a matter of fact, only 15 to 20% of North American Co.'s system represents street railway enterprises. The great bulk of its money is invested in gas, electric light and power companies. Its investment in the St. Louis traction situation is entirely confined to the common stock and this investment has some time since been written down to $1.

SAVAGE ARMS.—As the date of its October meeting approaches it is perhaps inevitable that rumors of an extra dividend on Savage Arms $7,748,000 common should be revived. These rumors have appeared with considerable regularity during the past nine months.

One of the interesting phases of the Savage Arms situation is the fact that in its year to December 31 this company, which has properly been regarded as one of the most typical of the war companies, promises to earn more than in either of the three previous fiscal years of its corporate existence. This at least is likely to be the superficial record of the 1919 results.

The six months to June 30 produced net profits of $16.16 per share on the common after war taxes and preferred dividends. The balance for the common in all of 1918 was $16.07 per share and in the 1917 year $16.23 per share.

The June quarter showed earnings for the common running at the rate of $20.68 per share, so that for all of 1919 an estimate of better than $20 per share on the common appears entirely conservative.

It is impossible to study the history of Savage Arms without coming to the conclusion that the management has with great singleness of purpose adhered to a policy of steadily reducing capital obligations out of earnings or through use of surplus assets.

The original amounts of first and second preferred were $500,000 each, a total of $1,000,000. Of this only 100 shares, or $10,000 of 7% first preferred and but $260,700 of 6% second preferred are still outstanding. Furthermore, an original total of $9,000,000 common has been steadily cut, until on June 30 last it stood at $7,748,000, which represented a reduction of $210,000 since January 1. In addition $1,500,000 of bonded debt has been wiped out. Here is a total cut in capitalization of $3,481,300, the broad effect of which has been to leave the assets as practically the possession of the common stock.

There have been pretty definite assertions made that Savage Arms in 1918 and 1917 confessed to only a portion of its actual earning power. It is certainly striking that of total net profits of $7,859,121 realized in the year to December 31, 1918, $6,460,238, or 82%, should have been reserved for war taxes. This is a remarkably high percentage.

Yet even after this reservation Savage Arms had $68 per share for its common in current assets and at present the figures cannot be far short of $80. While plant values are obviously hard to estimate during a period of transition, it is doubtless true that if the company establishes a solid peace time business in sporting rifles and automobile parts and forgings its assets in plant will conservatively be worth another $5,000,000. Such a figure would support the contention of those who claim that the total asset value for the common is fully $150 per share.

Savage Arms, however, has very clearly not completed its adjustment to a peace basis. In the process of doing so, however, it is by no means impossible that further amounts of common will be cancelled and capitalization drawn down to figures where earnings will sustain permanent dividends.

PUNTA ALEGRE SUGAR.—The directors of the Punta Alegre Sugar Co. have set aside out of surplus on May 31, 1919, the end of the company's fiscal period, an amount sufficient to provide for the payment of common stock dividends at the rate of 10%, or $5, for the year beginning October 1, 1919. An initial quarterly distribution of $1.25 per share has been declared payable October 15 to stock of record October 1.

Shareholders of record the same date are also to be allowed the privilege of subscribing to new common stock at $55 per share, in the ratio of one new share for every three shares now owned.

According to the terms under which the two issues of Punta Sugar convertible bonds were issued, these bonds were convertible into common stock only at certain specified times, and on the giving of prior notice to the company of intention to convert. The bondholders, however, are now offered the privilege of converting their bonds into common stock at any time and without giving any notice, effective immediately. If converted before October 1, the dividend and the rights will accrue to the stock issued in exchange.

The First Mortgage 6s of 1935 are convertible at 57½, and the Collateral Trust 6s of 1931 at 62½. The holder of a $1,000 bond of the former issue would, therefore, receive in addition to accrued interest to date of conversion, 17.4 shares of stock, and the holder of a $1,000 bond of the latter issue would receive 16 shares of stock. In the first case the annual dividend would amount to $87, and in the second to $80, as compared with $60 annual interest on the bond. In addition, the stock, but not the bonds, will carry the right to purchase the new stock. At present this right has a theoretical value of around $2½.

The capitalization of the Punta Alegre Company is now approximately as follows: $1,494,800 of First Mortgage Convertible 6% bonds of 1935; $2,989,000 of Collateral Trust Convertible 6% bonds of 1931; $760,000 of 8% accumulative preferred, and $5,160,100 of common stock. The par of both classes of stock is $50.

The preferred stock has been called for retirement and a new issue of $1,000,000 8% cumulative preferred has been authorized to help defray the cost of doubling the Punta Alegre mill. Assuming that all the bonds are converted into stock before October 1, there would then be outstanding about 177,000 shares of common, and the amount offered for subscription would be 59,000, which would bring $3,245,000 of new money into the treasury and be more than sufficient, with the $1,000,000 of preferred, to cover the cost of plant additions and put the company in a very strong financial position.

In the year ended May 31, 1919, the three Punta Alegre plantations produced about 600,000 bags of sugar and earned an estimated net after interest, taxes and all deductions of approximately $1,533,000, or $20 a share on the stock then outstanding. These earnings alone would be equal to nearly $8 a share on the stock that would be outstanding after the conversion of all the bonds and the new issue. But the contemplated additions to the facilities are expected to give the company a capacity of 800,000 bags a year and, with every prospect that the price of sugar will be materially higher during the current year than last year, 1920 should prove a very prosperous period.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 824 September 26, 1919

THE GENERAL MARKET.—From time to time there is some disposition on the part of unthinking people or the more demagogic press to rail at the stock market as an unnecessary and unhealthy institution. Yet within these last few weeks it has given a striking example of its great usefulness. Through it the investors and speculators of the country have registered their firm belief that though confronted with as serious labor and social difficulties as have occurred in many years—these will prove but temporary—and that this country will emerge triumphant from the present unsettlement. This exhibition of confidence in the abiding common sense of the American people cannot but be inspiring to all classes, high and low. It is still further justification of the means that only the market can afford of registering the convictions of the most far-sighted man. This confidence, we feel sure, will not prove to have been misplaced. The markets have not failed at once to grasp the fact that the motive in the most extreme of the labor movements that have come to a head in the strike of the steel workers is not, primarily, an attempt to improve conditions of the workers, but to impose a revolutionary dictatorship by one class upon the rest of the nation. If employees of the steel companies were down-trodden, if their wages had not been increased in proportion to the cost of living, public opinion would be overwhelmingly on their side. But this, as is well known, is not the case; it is simply a case of the most radical element attempting to make use of the unrest resulting from four years of unsettlement to foster their own selfish ends. In brief, their contention is not founded on right and therefore cannot prevail.

The most repugnant principle introduced is that of coercion, and the most deadly doctrine put forth is that of arbitrarily restricted output. Here is where labor, as a cause, is doing itself great harm. All well wishers of this cause—among whom we number ourselves—must regret the course they are pursuing. If labor is to win the confidence of the nation so that it may be entrusted with a voice in the Government of the State and of industry, it must put far more emphasis on the production of goods and less on their distribution.

The steel workers are, by no means, alone in this attitude. The action of the cotton planters in arbitrarily restricting the acreage in the face of tremendous world shortage of clothing is another example of this short-sighted policy.

We wish that all could read in full the speech of Hon. William M. Hughes, present Prime Minister of Australia, who himself rose as a labor leader. We quote a few sentences:

> The foundation of the new England that is to be rests upon the production of more wealth. High wages will not come from words. For nearly five years the world has been engaged in the work of destruction; it has now got to turn with determination to the work of making good that which has been lost; it has to bear the burdens—greviously heavy—of this great war, it has to produce wealth in sufficient quantity to enable high wages to be paid. And these things can only be done by a recognition of the facts of life and of modern production.
>
> "Capital must have that return which is necessary to repair wastage and to ensure sufficient supply. The world cannot consume without producing. Labor cannot produce the maximum output without sufficient capital to ensure the most effective methods of production. Capital itself is the margin which consumption leaves over from production. The only way by which a sufficient amount of wealth can be produced to give those high wages that the workers are resolved to have is that capital in sufficiently large quantities shall be available to enable labor to produce in abundance.
>
> "That man who produces to the utmost of his capacity is the citizen to whom the State and his fellows owed most. He who produces nothing, or as little as he can, is the enemy of society.
>
> "Two things that act and react on one another, and are both fatal to the development of that state of society which alone can create satisfactory conditions in this or any other country, are profiteering and the go-slow or the 'ca'canny' policy. The profiteer is, as I see him, one of the most deadly menaces to any country. On the other hand, restriction of output must be condemned unsparingly. Those who counsel restriction of output are the enemies of labor, and if their counsels be heeded will surely lead it to destruction.
>
> "The workers have everything to gain and nothing to lose by increasing output. They are now powerful enough to insist upon their fair share of that which is produced. The more they produce the greater their share will be. The less they produce the less they will get."

An encouraging development of the week is the slight improvement noted in foreign exchange. Europe needs our goods quite as much as we need her trade, and it is greatly to the mutual advantage of both sides of the ocean that some method should be arranged whereby foreigners can afford to buy our goods. To do this every effort should be made to arouse national sentiment.

We are also pleased to note that sentiment seems to be gradually crystallizing against Government ownership of railroads. It is coming to be recognized that the nub of the question here is that sufficient return should be insured to invite an investment of private capital—something that has not been the case for quite a few years past.

Possibly confidence in the successful outcome of the present labor difficulties is being so strongly registered that when the clouds actually pass away there may be some little reaction. The world shortage of goods, however, is still so great that although realizing that stocks are at a high level, we are still attracted to the constructive side. It will not be until there has been a much more general public participation and over-extension that we should anticipate any such serious break as occurred in July and August.

The markets are bearing out consistently the theory of post-war inflation that has followed all great wars. So long as the currencies of the world are at so great a discount, and so long as there is such a shortage of labor and goods, this inflation—it seems to us—is bound to be in the ascendancy.

GENERAL ELECTRIC.—Both in gross sales and final net profits General Electric promises to have in the year to December 31 next the best twelvemonths in its history.

Despite the fact that in 1918 the Government directly or indirectly was its largest customer, General Electric has had almost no adjustment to a peace basis to make. In its case at least the assertion that normal domestic buying held back by the exigencies of war would be sufficient to fill the selling vacuum created by withdrawal of Government buying seems likely to prove literally correct. The feature of General Electric sales for some months has been the vast number of small-sized orders from an almost infinite variety of customers with large orders reduced in proportion.

The company's net sales billed out to customers are said to be running about 18% ahead of the $216,815,277 shipped in the December 31, 1918, fiscal year. And net profits are likely to show fully as large a percentage of gain.

It would be highly misleading at this time to discuss share earnings of General Electric. The company is a very solid, substantial and self-contained organism. It has followed for so many years a policy of intensive cultivation that it has latent resources possessed by very few American industrials outside the Standard Oil group. Within reasonable limits the statement is literally true that what General Electric shows for its $115,874,000 capital stock is largely a matter of election on its part. But its accounts have been kept for so many years with such conservatism that there is no reason to suppose this policy will be a whit altered in 1919.

It may be recalled that General Electric started the year 1919 with about $80,000,000 of unfilled orders. For a time new orders came in at the rate of $160,000,000 per annum. But the volume of new business has been steadily improving and is now comfortably in excess of a $200,000,000 per annum rate.

General Electric in the four years to December 31 last had expended $57,228,214 on additional plant which in effect has given it a 100% increase in capacity. None of this expenditure has been capitalized and furthermore only $12,976,823 has been taken up on the books.

By the middle of 1920, barring some unexpected development, General Electric will have paid off the last of its 6% notes, so that the stock will own the business, save for $12,047,000 of long term debentures, which there would be no point in attempting to retire.

The distinctive feature of General Electric is the fact that, save for a comparatively small fixed charge of $575,000 its stock owns all its immense assets and earning power. While the company has adhered to the regular 8% cash dividend, it is paying 4% per annum in stock, which at current prices for the shares, represents an additional $6.80 per share. This stock extra is in a sense recognition of the decreased purchasing power of the regular 8% dividend. At the same time, it is an eminently conservative distribution and emphasizes the investment characteristics which the shares have so long enjoyed.

AMERICAN LINSEED.—The transformation in earning power of American Linseed has been very well reflected in the sharp advance in the $16,750,000 common during the past four months. The highest point touched by the common in May was 55½. At last week's high the common sold at 83, an advance of 27½ points and an increase of almost 100% from the year's low. Stated in an even more striking manner it is interesting to note that Linseed common at current prices is nearly 10 points above the highest quotation ever attained by the $16,750,000 preferred in any year up to 1918.

For a company, which for 16 years paid no dividends on its preferred, the market in the past 18 months has given very sharp and rapid appreciation to the sudden expansion in the company's earning power.

American Linseed was long regarded as a decidedly mediocre proposition. It has had for the past four years no bonded debt whatever and prior to that time the total of bonds was but $315,000. Notwithstanding the fact that the preferred represented the property and had first call upon profit, this issue up to 1917 had paid but 12¼% in dividends and had consistently shown a balance of less than the 7% non-cumulative rate year after year.

In the fiscal year to September 30, 1918, American Linseed stated its profits as equal to 12.75% on the preferred, or 5.75% on the common, after deduction of 7% preferred dividends. Because of the fact that Linseed is in part a holding company there has been a strong suspicion that neither in 1917 or 1918 did the corporation take up in its own income the full earnings of its subsidiaries.

There are excellent reasons for the belief that the profits for the fiscal year period to September 30, 1919, will exceed by a very wide margin those of any former year. In a considerable measure these profits represent a remarkable inventory appreciation. American Linseed for months has controlled a very large percentage of the country's flaxseed. The abnormal demand for linseed oils and the shortage of flaxseed have

conspired to create an appreciation in the price of linseed oil which has automatically rolled up a high percentage of profits on the company's common.

American Linseed, in its coming fiscal period, will not be able to count with any confidence upon the continuance of abnormal inventory profits. Obviously this water has gone over the dam. On the other hand, it requires but $1,172,500 to pay 7% preferred dividends. This sum, with possibly $1,500,000 in addition, American Linseed has been earning for two years from one of its subsidiaries manufacturing a food fat substitute. This class of product is not subject to the changes incident to the commercial demand for linseed oil. In fact, the bulk of this product is secured through use of cocoanut oils.

American Linseed has for so many years pursued a policy of comparative secrecy and the facts of its business development have been so carefully screened that the company's shares have many of the elements of "mystery stocks." At least, if the financial community chooses to regard them as such there will be sound arguments to support such a course.

UNITED STATES SMELTING.—The increase in the dividend rate on the common stock of this company to $6 from the $5 rate which had been in effect nearly three years would seem to be amply justified by current earnings.

It will be remembered that in 1918 the reported earnings available for the common were equivalent to $8.75 per share. This was after very heavy charge-offs for depreciation and improvement reserve, but before any reserve for federal taxes. The latter were estimated as about equal to $1 per share, so that after all charges, the final balance was probably equal to approximately $7.75 per share.

During the first quarter of 1919 net profits after all deductions, including federal taxes, were reported as $650,000, or 64 cents a share for the 351,115 shares of common stock. During the second quarter, net jumped to $1,390,481, or $2.75 per share. During the third quarter net amounted to $1,801,572, or $3.93 per share. The nine months' earnings, therefore, totalled $7.31 and were at the annual rate of $9.74 a share for the common. The yearly rate for the third quarter was nearly $16, so that if the last three months are as good the year, should show over $11 a share for the junior stock issue.

As a matter of fact, however, there is a good chance that the last quarter of 1919 will materially exceed this record, so that United States Smelting may be able to show a final net of more than twice its $6 dividend requirements.

In 1918 the company reported a silver output of 15,337,465 ounces. This includes purchased silver, and it is estimated that perhaps 12,000,000 ounces represented actual output of the company's mines. This year operations in Mexico have continued without interruption. During the first half of 1919 the average monthly tonnage of ore produced and milled was 68,000 tons, as compared with an average of 58,000 tons a month in 1918. At present the monthly tonnage is running over 82,000 tons.

The average price received for silver last year was 97 cents an ounce. Since the removal of the Government restrictions, the price has tended steadily upward, bar silver being now quoted in New York at $1.16 an ounce, or nearly 20 cents above last year's average. Assuming an annual silver production of only 15,000,000 ounces from its own ores, each cent advance in the price of the metal means 43 cents additional earnings for the common shares.

United States Smelting has recently acquired a new property of about 200 acres adjoining its present Pachuca property, thus giving it a solid block of about 300 acres of some of the richest silver mining ground in the world. While the most emphasis is laid upon its silver production as possessing the most interesting possibilities at the present time, the copper, lead and coal departments are all reported to be doing well. The increase in the price of both copper and lead since the early months of the year should enable these branches to make a much better showing of profits during the rest of 1919. Furthermore, the coal subsidiary which in 1918 turned out 1,272,081 tons, gives every indication of proving a good earner this year.

The United States Smelting Company has outstanding at the present time, $12,000,000 of 6% notes, due 1926. These are convertible into common stock at any time at 75. With the common on a $5 dividend basis, there was little advantage, from an income standpoint, in conversion. An increase in the dividend rate to $6, however, will probably go a long way toward stimulating such conversion.

NEW YORK, CHICAGO & ST. LOUIS.—The Nickel Plate appears to be one of the few railroads that can thrive on present operating conditions. In 1918, it will be remembered, its actual operating revenue exceeded all previous records, the balance available for the common stock, after allowing for the full 5% dividend on the two classes of preferred, being equal to about 10.84%. The best previous year was 1910, when 8.27% was reported for the $14,000,000 of common.

However, for the five years immediately preceding 1918, the road had made a very indifferent showing, and it is for that reason that under the Government guarantee, based on the average net income for the three years ended June 30, 1917, it fares rather badly. The federal compensation amounts to $2,218,857, and, after making all deductions for interest and other charges, the corporate income account for 1918 showed a net of $701,183. This sum is sufficient to pay the first preferred dividend, but leaves only 4.10% for the second preferred, and nothing for the common.

With a prospect of a resumption of private control and operation at the end of the year the importance of the Government guarantee is overshadowed by the actual current earnings of the road. In this respect the Nickel Plate has made almost a sensational record so far in 1919. For the first seven months, net

operating income amounted to $2,611,398, as compared with $1,040,696 in the same period last year. On the average, this road earns about half of its year's net in the first seven months. If this ratio holds this year the final 1919 net should come pretty close to $5,200,000, as against $3,834,511 for the preceding twelvemonth. Earnings of this amount would mean about 20% for the common stock. Perhaps, however, any such percentage is too much to expect, particularly in view of the fact that in recent months both gross and net have shown a declining tendency; but at any rate a percentage in excess of last year's can be confidently looked for.

The Nickel Plate has always been regarded as more or less of a fair weather proposition, that is in periods of heavy traffic movement it made good profits, but in lean times it had difficulty in competing with the big trunk lines that parallel it. Possibly under the New York Central control the road may have been used as only an outlet for surplus traffic that the main lines could not handle, and under its present independent management it may be able to make a better showing in actual competition.

At all events a railroad common stock that in each of the two years, 1918 and 1919, can show earnings of over $10 per share, would seem to have pretty good speculative possibilities with the abandonment of Government control.

ASSOCIATED DRY GOODS.—Earnings of Associated Dry Goods in 1919 have felt in a very decided way the widespread retail buying which has been so marked throughout the country.

The fiscal year to December 31, 1918, was productive of the largest net profits in the company's brief career, the balance of net reported by the parent company being $2,199,735, against $1,764,187 in 1917, and $1,170,015 in 1916, the first year of its organization. From these profits there had to be deducted in 1918 interest, miscellaneous expenses and $528,500 reserved for income and excess profits taxes. The final balance for the $14,985,000 common was equal to a fraction over $2 per share.

The gain in 1919 net profits has been most impressive, the percentage of increase being substantially in excess of 100%. At the moment it appears as if the full 12 months to December 31 next would produce profits for the common of very close to $20 per share. What the company does finally show for its junior stock is obviously a matter of election, as the parent company is simply a holding corporation and can draw down from its subsidiaries much or little, as the exigencies of the situation render proper.

Ordinarily Associated Dry Goods goes through the three summer months with red ink figures. But 1919 has reversed this prior experience and the quarter to August 31 showed a small balance of net profits.

Associated Dry Goods by December 31 will be in financial position to consider an initial dividend on its common and barring some unexpected development it is probable that some distribution will be voted by the turn of the year. The $13,818,700 first preferred and $6,725,500 second preferred have paid dividends continuously since they became cumulative.

ATLANTIC GULF & WEST INDIES.—From a steamship standpoint one of the significant features of Atlantic Gulf's 1919 operations has been the large number of boats the company is running. For several weeks the subsidiary lines have been operating close to 150 boats. This includes the 69 owned steamers, 12 steamers on charter, while the balance is made up of boats operated on a commission basis for account of the shipping board. The commissions received for operation of these shipping board boats are not particularly important, their chief contribution being a partial absorption of overhead expenses.

The Atlantic Gulf lines are all handling capacity cargoes, although it is only fair to state that less than 25% of the number of its ships are at present engaged in coastwise traffic.

Work on the company's Mexican oil property is progressing as well as weather conditions permit. Three months of rainy weather have not tended to help construction. At the same time work of laying the pipe lines is up to schedule and oil should be flowing to the coast very early in 1919. The company in furtherance of the policy of proving up its oil lands will shortly start to drill its fourth and fifth wells.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 825 October 3, 1919

THE GENERAL MARKET.—So kaleidoscopic are the changes in the market that a Weekly Letter can scarcely keep pace with them. The violent uprush of the past few weeks has pretty well fulfilled the predictions of the optimists. It will be, we think, pretty generally conceded that the successful outcome of the steel strike has been fairly well discounted. In short, the advance, which has carried a number of issues to new high records, induces, at least, momentary caution.

About the only new development of the week has been the increased probability of the return of the railroads to their owners. So many times in the past five years have railroad stocks started up, only to fall back again, that speculators have, naturally, become pretty skeptical. It would appear that opinion is gaining that some kind of a scheme will be devised to give reasonable assurance of the continuance of about the present scale of dividend rates. This will probably be sufficient to attract the necessary capital, at least for the stronger roads, and would raise this class of stocks to higher levels. In all probability, however, the old days of large, speculative profits in railroading, the placing of capital at heavy risk for the sake of the opportunity of a proportionate return, have permanently disappeared.

We should rather expect to see railroad stocks command somewhat higher prices, but we doubt if they will again become the popular mediums of speculation.

Within the last few days rates for money have indicated clearly that the available limit of loanable funds has about been reached. Several times in the past year this has been a sign of temporary danger. Even the firmest believer in a protracted era of inflation must admit that there will be temporary periods of overbought markets, of over-extended credit, and subsequent relapse.

We frankly feel that the present marks such a time. Not that we are in any sense discouraged over the future outlook but it seems to us that the favorable features have now been quite fully discounted. Before there is a renewal of stock advance, there should be more positive favorable developments. Especially is this true of foreign exchange.

In short, while we by no means take a broadly pessimistic view, for there are many stocks that, even at their current levels, are, we believe, well worth holding—we do not believe that successful men are buyers of stocks at this level. With some pause and, perhaps, a slight reaction, they may very well become so.

AMERICAN SUGAR REFINING.—The strong prospect of a free market for sugar in 1920 is an interesting illustration of the dynamic drift of economic conditions toward normal. So far as agitation over the high cost of living is concerned this was an element which would have dictated a continuance of Government control. In fact, were the question of sugar price regulation exclusively within the power of this country to regulate, it is a fairly safe prediction that price control would have continued.

But there were three parties to the question of the price of the 1920 Cuban sugar crop. In the first place there is the Cuban producer and his government; in the second place the American consumer and his government, and thirdly there is the European buyer. And candor compels the statement that it has been the European buyer who has created a condition making continuation of price control practically impossible. For some weeks British buyers have been purchasing large stocks of 1920 Cuban sugars and at prices which pretty consistently ignored the 5.50 cents per pound price level which has prevailed this year under the Sugar Equalization Board. In fact, it is reliably stated that one of the largest Cuban producers has already sold one-third of its 1920 crop at an average price 1 cent per pound above the 1919 fixed price. And current prices in Cuba have naturally gone even above this level. Early crop sugars are even now being offered at 7 to 7¼ cents.

England, in 1919, has become accustomed to an 18 cent per pound retail price for sugar.

The American consumer in 1920 will hardly be called upon to endure this hardship, but he will doubtless have to pay substantially more than 11 or 12 cents and will also in all probability witness considerable and possibly sharp fluctuations in the price of granulated.

The American cane sugar refiners have for two years operated under price control. There have been severe handicaps and at times a good deal of red tape in Government price fixation. But the policy of non-fluctuating prices for raws and refined has completely lifted from the shoulders of refiners the speculative risk inevitable in buying raws in a free price market. In 1920 the element of speculation in raws will reappear and this will be complicated by the fact that Cuban sugars are no longer an American buyer's natural monopoly, but are subject to European demand up to a probable total of 1,500,000 tons, or say one-third of a possible 4,500,000 ton crop next year.

Sugar stocks as a class have been strongly in the speculative fore front since the probability of free prices

in 1920 became apparent. The argument that unfettered prices mean larger profits to Cuban raw sugar producers is probably sound.

With the refiners, however, the 1920 experience may easily be different, especially if prices are unduly inflated early in the next crop year.

The particular strength in American Sugar is doubtless explained in large part by its rumored intention to acquire a large Cuban sugar producer. Such a step would be a very important change in policy for the country's largest refiner. Some of the independents, to be sure, have raw sugar interests, but American Sugar itself has studiously kept out of the raw sugar field. Its beet investments were made many years ago. At first a defensive acquisition of these beet sugar holdings have been from time to time materially reduced by sale and for several years have been nothing more than investments, representing properties in which American Sugar had no control and in most cases no representation.

If American Sugar does decide to go into Cuban raws, it will not be with any idea of producing the sugar it refines. Such an investment would be far too enormous even were companies producing this amount of raw sugar susceptible of purchase. But with world conditions in sugar as they are it may be the part of wisdom for American Sugar to own a small part of its raw supplies. Such an ownership would at least give it an influence or protection on Cuban price competition. Should this entry into Cuban production develop it is well to bear in mind that any money so invested would represent simply the utilization of the large surplus resources which the company possesses, a proper use of which has naturally been in directors' minds for many months past.

THE COAL SITUATION.—During the last few weeks there has been a noticeable expansion in the demand for soft coal. The increase in demand is an entirely logical revival from the marked depression which featured the first three or four months of 1919.

During 1918 the emphasis upon production was literally enormous. Actual output of soft coal in the United States last year was over 600,000,000 tons. Following the armistice many manufacturers who had stocked up with six to eight months' supply of coal found their war orders either cancelled or in danger of cancellation. Back in April it was estimated that there were at least 100,000,000 tons of bituminous in consumers' hands. It has taken several months to work off this accumulation, but it has now been largely eliminated.

The abrupt choking off in demand, due to the ending of the war and the heavy stocks in consumers' hands, naturally led to lower prices for coal when contracts came up for renewal in March and April. In fact, as events have worked out, contracts for the 1919–20 coal year were renewed when the industry as a whole was at about the depth of its depression.

The slowing down in production which obtained for the first four or five months of 1919 reduced output to a level corresponding to demand. The revival in demand which has been in evidence for some weeks has resulted in a present estimated shortage of bituminous coal of over 75,000,000 tons. There is very little chance that this shortage can be made good during the balance of 1919. In fact, the inefficiency of labor and car shortage are such that the mines at present are doing about all that can be reasonably expected of them.

Coal executives during the slump in the coal industry, which featured the first half of 1919, frankly expected just such a "comeback" as has developed. But in renewing their April contracts they were forced to accept the alternative of selling their product at the then market level or else closing down the mines and waiting for a possible revival in demand with higher prices. Under the conditions there was obviously but one thing to do. As a result the majority of soft coal producers have only nominal amounts of "spot" coal which they can sell, so that the prevailing higher prices will have only a very slight effect upon 1919 net profits.

However, unless there is a sudden cessation in demand there is a strong likelihood that when 1920–21 contracts come up for renewal the price level will be considerably higher than it was last April.

It will certainly need to be if the insistent demands of labor and the several wage advances granted since January 1 are to be compensated for in selling prices for bituminous.

It is not generally appreciated that the current world shortage in soft coal has presented a unique trade opportunity to the United States. It is literally true that this country could export millions of tons of bituminous. But two very practical considerations prevent any considerable export movement. In the first place, there is almost no coal available and only a small prospect of spurring production to a level that will create an exportable surplus. In the second place there is not an adequate supply of ocean tonnage to give American coal exports an impressive total even were the coal available. For these two reasons it is necessary to take with a large grain of salt the recurrent press accounts of large export orders for coal coming to American operators.

Another factor in the bituminous situation may well be mentioned at this time. There is a very general impression in financial circles that the enormous stimulus to general use of oil in industrial business has created a situation possibly jeopardizing the coal industry. There is little doubt that oil has entered a new era of popularity. But good judges believe that the greatest effect of oil competition will be to lessen or at the most prevent the normal annual increase of 10% in bituminous coal production of the United States.

AMOSKEAG MANUFACTURING CO.—For the second successive year this company showed an income no doubt stimulated by present extraordinary conditions, but more in proportion to its recognized earning ability.

The balance of $7,945,000 compares with $5,052,000 for last year and is several times anything that the company had shown previous to that time. This amount is equal to $43 per share on its common stock, as compared with $32 last year.

The noteworthy feature here is that these earnings were made on a considerably less outturn of final product than in the previous year; in fact, the output shows a falling off from 1917 of more than 25%. According to the figures shown the operating ratio dropped from around 89% to less than 82%.

Extraordinary as are these earnings, even more so is the financial condition disclosed by the Balance Sheet—the net quick assets rising from $19,902,000 to $34,480,000. This is equivalent to no less than $133 per share in working capital for the common. In addition to this are the company's tremendous fixed assets carried at the purely nominal figure of $3,000,000. In this connection, however, it should be borne in mind that out of these quick assets the company will have to pay 75% of its 1918 taxes. This and possible adjustments for previous years may call for a large sum, so that it behooves to maintain a strong position.

MAXWELL-CHALMERS—The proposed plan for the merger and readjustment of the Maxwell Motor Company and the Chalmers Motor Corporation has been ratified by the directors of both companies and shareholders are asked to deposit their stock before November 8, 1919.

The new company, to be known as the Maxwell-Chalmers Motor Corporation, is to have outstanding $10,000,000 of 10-year 7% convertible notes, $3,150,000 of 7% cumulative preferred stock, par $100, and 420,691 shares of common stock of no par value. The notes are to be offered to depositors under the plan for subscription at par. The preferred stock is to be issued dollar for dollar to holders of present Chalmers 6% notes, and the common to the shareholders of both concerns as follows:—

Maxwell 1st pfd.	120	% of their holdings, or				157,601	shares
" 2nd pfd.	66½	"	"	"	"	67,348	"
" common	70	"	"	"	"	89,637	"
Chalmers pfd.	105	"	"	"	"	46,200	"
" common	15	"	"	"	"	59,905	"
						420,691	"

The accumulated dividends on the Maxwell 1st preferred stock, amounting to 7%, will be paid in cash.

The new company will have comparatively small annual charges, only $920,000, including interest on the notes and preferred dividends, although annual sinking fund requirements of 5% of the outstanding bonds and 2½% of the outstanding preferred must be met before anything can be paid on the common. On the total amount of notes and preferred to be issued, these requirements will take $578,750, although it is probable that conversion of the notes will reduce this figure. The notes are convertible into 15 shares of common stock for each $1,000 note, if converted within 90 days of issue date, thereafter at the rate of 12 shares for each $1,000 note.

Figuring merely the note interest and preferred dividends, but not sinking funds, the earnings of the two companies for the past four years would figure out as follows for the common stock of the new corporation:—

	Net After Taxes	Per Share Common
11 months to June 30, 1919	$1,807,527	$2.11
Year to July 31, 1918	2,334,236	3.37
Year to July 31, 1917	5,507,697	10.92
Year to July 31, 1916	5,426,636	10.72

The 1916 and 1917 years were very satisfactory, although the decline in profits in the last two years is very disappointing. Perhaps one reason for this is that practically all of the reported profit was derived from the Maxwell Company, the Chalmers producing practically nothing, while the Chalmers is responsible for all the preferred and 106,105 shares of the common stock of the new company. During 1918 and to a greater extent in 1919, the Maxwell business was upset by Government war orders and the readjustment incident thereto, particularly the readjustment to a peace basis in the 1919 period. By now, however, the company should have cleaned up all of its war business at both the Maxwell and Chalmers plants, and should be in a position to turn out its regular line of cars at capacity. A new plant covering 15 acres, costing about $12,000,000, and employing about 15,000 men, is now under construction at Detroit, and when completed, most of the manufacturing will be concentrated in that city. In view of the prosperous conditions prevailing in the automobile industry as a whole, it would seem as though the earnings of the new company for the current fiscal period ought to make a much better showing than in the two previous years.

PUNTA ALEGRE SUGAR COMPANY.—Of the total bond issues of $4,495,000, $3,922,000 have been converted into stock, leaving $573,000 that will not share in the subscription to the new common stock. With the exercise of the "rights" on this converted stock and that now outstanding, at $55 per share, which has been underwritten, the company is assured of about $3,070,000, more than enough to cover the cost of the addition to its Punta-San Juan mill, and obviates the necessity of any new issue of preferred stock. With the conversion of the bonds that has taken place and subscription to new stock, there will be outstanding, approximately 223,268 shares of common stock.

A good part of the material for this addition will go forward by the middle of this month and this work is proceeding according to schedule.

To take advantage of the extraordinary situation in sugar, the company will probably begin grinding somewhat before the first of December. In this event the estimate of 700,000 bags for next year's crop should prove decidedly conservative. This would compare with an output for the year just past of 605,000 bags.

For 1918–19 the company has obtained an operating profit of about $4.70 per bag. It has sold some of its next year's sugars for over 1 cent per pound higher than it received for the past year's crop. Current prices would indicate a gross revenue for the coming year of at least $3.50 per bag more than it received in the year just past.

Assuming that a part of this will be absorbed by increased expenses and taxes, present indications point to a profit for the coming season of $12 per share, and it is quite possible that this figure may be materially exceeded.

SOUTHERN RAILWAY.—After having made one of the finest records of any railroad in the country, on the basis of earnings from actual operations in 1918, the Southern Railway has so far this year made a very disappointing showing.

It will be remembered that under the Government guarantee this company was entitled to receive a net income equivalent to about 2.33% on its $120,000,000 of common stock. In 1916 it had actually earned 7.10%; in 1917, 9.19%; and in 1918, 11.08%. In 1915 it failed to earn a 5% dividend on the $60,000,000 of preferred stock by nearly $1,400,000, and it is this poor year that is reponsible for the relatively small compensation guaranteed by the Government.

The splendid increase in the balance available for the common stock during the past three years was due, of course, to rapidly expanding gross business. In 1915 the road's gross income was $62,199,510—jumping to $75,500,000 in 1916, to $90,700,000 in 1917, and to $126,500,000 in 1918. This expansion was due chiefly to the generally prosperous condition of the South, resulting from high cotton prices, and partly, in 1918, to the large number of army camps located in territory served by the Southern Railway.

This latter source of revenue has now been eliminated, which may have had some effect upon the earnings of the current year, which compare as follows with those of 1918:—

	1919		1918	
	Gross	Net	Gross	Net
Six months to June 30	$59,052,113	$2,019,774	$54,134,611	$11,008,356
July	11,320,441	2,098,231	12,362,232	4,118,183
August	11,736,144	2,076,552	13,218,912	2,991,289
Eight months	$82,108,698	$6,194,557	$79,715,755	$18,117,828

Gross for the eight months is still ahead of last year, although it has been running behind in recent months. From the standpoint of net the first half of the year was most discouraging, showing only $2,000,000 total, a figure which was equalled in both July and August. If the remaining four months of 1919 can each produce a net of $2,000,000, the final net for the year would be approximately $14,000,000, which would be equivalent to only about 3% on the preferred stock, leaving nothing for the common.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 826 October 10, 1919

THE GENERAL MARKET.—Within the next few weeks three vexatious problems that have confronted this country, actually or potentially, for months past, will very likely have been settled. These are the steel strike, the peace treaty and railroad plan. The steel strike is steadily waning. As they see themselves losing, the strikers are quite likely to resort to violence. This is an ugly stage, but is pretty sure to mark the beginning of the end. It is not our province to discuss the merits or demerits of the peace treaty, but we think it is likely to be adapted with due preservation of American rights. If so, a great incubus will have been removed.

As to the railroad plan, it seems to us that there are very serious objections to the scheme as it is now shaping up. But almost anything, it seems to us, is better than nationalization. It will be interesting, at least, to watch the working out of this plan, and we think the country will breathe more freely when some definite steps are taken.

With these three problems out of the way the only serious problem remaining would seem to be the stabilization of foreign exchange. As yet it is difficult to see that any definite steps have been taken to solve this, but at least people are becoming more widely acquainted with its great importance, which is, perhaps, the first step toward getting any definite results.

As a market factor, we should say that the crops this year will be largely a negative one. What amounts to the final report shows a corn crop well in excess of the average, and a wheat crop about up to the average. These will be sufficient for our own wants, but will not provide the exportable surplus to the extent that had been previously hoped.

We are now passing through a period of inflation such as is bound to follow all great wars. One of its most unfortunate features is the extravagance on all sides. The example for this has been set at Washington, and it is followed right down the line. Savings are disappearing or, perhaps, it would be more correct to say that no new savings are being created. Along with this extravagance is a great reluctance to do an honest day's work. It is a fact that should be stated frankly, that England and Germany are already beginning to take advantage of this situation, and are making great inroads on the world's markets.

For months past now, we have had a number of vexatious problems confronting us, but these, for the most part, as we have suggested, have been, or shortly will be, disposed of. When the skies are clear, however, is the time to look out. No one can pretend to say when this period of inflation may come to an end; it is quite possible that it may still be months away. Wide fluctuations, with rapid advances, such as we have witnessed the last few weeks, are fascinating, but exceedingly dangerous; in fact, it is on this very feature the great danger of this situation, marketwise, that we feel particular emphasis should be placed. It is not in the early stages of a bull market—when everyone is discouraged—that there is great danger, but in the later stages, such as we believe we are now witnessing.

While there has not been so wide a movement as there was in 1906 and 1916, the average of the industrials has reached a new high level. We do not believe this is the time to take a strongly bullish attitude. On the contrary, while not pretending to say that we are at the top, we cannot but advise against new commitments. If one has not already bought stocks, it seems to us too late to begin doing so. If he has stocks bought at much lower prices, he may, perhaps, take the risk of riding along with a part of them, but it is exceedingly inadvisable to take on a heavier load until we shall have had, at least, a very substantial reaction.

BALDWIN LOCOMOTIVE.—The equipment industry of the United States may now fairly be declared to be passing through a transition period. Whether this transition period will be protracted enough to develop into a real depression is impossible of prediction at this time.

The abrupt ending of the war did not impose upon the equipment companies as a class the necessity for any quick transition from a war to a peace basis. So far as character of output was concerned the two big locomotive companies, Baldwin and American had no occasion for change. All through 1918 these two concerns were bending their energies to produce all the locomotives possible. American Locomotive was making nothing but locomotives and Baldwin was handling whatever special war production it was manufacturing through a separate, subsidiary organization.

The armistice on November 11, therefore, found both these concerns with large unfilled orders for locomotives for American railroads. These orders were not cancelled and bulked so considerable as to insure in conjunction with some foreign business capacity operations practically through the first half of 1919. As a result, Baldwin Locomotive, in its half year to June 30 had six months of extremely satisfactory

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profits. Good earnings continued during the September quarter, but at a sharply reduced rate as compared with the first half year.

During the final quarter of 1919 it seems probable that operations will be conducted on a greatly reduced scale. The company's unfilled orders for locomotives have dwindled down to less than $10,000,000 and plant operations are at rate of not over 40%. Obviously it is extremely difficult to realize any considerable amount of net profits from such operating conditions.

Baldwin Locomotive has, however, already realized enough net earnings in the first nine months of 1919 so that the balance for the $20,000,000 common in the fiscal year to December 31 next should equal any other fiscal period in its history, with the exception of 1917, when final net of $34.02 was shown.

It may be recalled that in the 1918 fiscal year the company showed a common share equity of $21.76 per share, but this was after a charge against profits for depreciation, amortization, taxes and sundry adjustments of $12,509,816, against $2,888,118 in 1917, an increase of $9,621,698, a sum equal to an additional 48% on the common.

The Baldwin management has for three years been sticking to the policy of building up a strong treasury position. At the close of 1918 the company had net quick assets of $21,204,926, against $7,475,249 on December 31, 1916, an expansion of approximately 200%. By the end of this year the working capital balance should be between $24,000,000 and $25,000,000. This sum should be sufficient to free the company permanently from bank debt. In fact, on December 31, 1918, bank loans stood at but $900,000, against $11,000,000 at the close of 1916.

In respect to working capital, Baldwin is, of course, substantially behind American Locomotive, which on June 30 last, had net quick assets of $35,508,422, or a balance of $40 per share for its $25,000,000 common after providing for the preferred at par. Baldwin's December 31 quick assets only covered its bonds with about $55 per share for its preferred.

Just how quickly Baldwin and American will be able to increase their percentage of plant operations depends on foreign orders. The prospects of foreign business are good, but in developments of such magnitude the time factor is liable to prove greater than originally expected and much longer than the speculative community is apt to appreciate. Getting foreign orders is largely a question of foreign credit. It is becoming increasingly apparent that it will probably take several months to bring these matters to a head. Meantime any large domestic buying is unlikely for at least six months. The only considerable business immediately in sight for either company is an order for 400 locomotives from Belgium. This will probably be divided equally between American and Baldwin. It ought to count in operations by December.

AMERICAN TELEPHONE & TELEGRAPH.—The financing which American Telephone & Telegraph Co. has just completed is the first which the company has arranged since Government control ended on July 31 last. This financing follows very closely along the lines anticipated both in amount and character of securities. The parent company has done no financing since the June, 1918, sale of $48,353,624 6% 7-year convertible notes. That money is understood to have cost American Telephone slightly over 8%. The present financing was arranged on a much more advantageous basis, the saving in cost of new money being at least 1%. There is, of course, a little moral in all this. The 1918 financing came just after Government control had begun and had to be put out on an unusually attractive basis to secure the requisite degree of popular support.

The $50,000,000 notes just sold attracted comparatively little attention in these days of large undertakings and were distributed on a basis fairly commensurate with the company's high credit. For nine years American Telephone, the parent company, has shown its interest charges earned 5½ times and in the fiscal year to December 31, 1919, even with interest on this new money included will earn its interest charges nearly four times.

Because of the 1918 sale of $48,000,000 6% notes and the present issue of $50,000,000 6% 3-year notes, the parent company has increased its interest charge at the rate of $6,000,000 per annum in the past 15 months. The 1917 interest obligation was $10,469,360.

It is well to have this bit of financing out of the way. It should serve to squelch the incessant gossip of a preferred stock issue. Incidentally by giving a clear idea of the money requirements of the Bell system it should serve to ease the doubts of those who have asserted that the 8% dividend on the $441,947,000 capital stock was in danger. There is little question but that final figures will show that American Telephone will earn in 1919 very close to 10% for its shares and if its equity in the undivided profits of subsidiaries were included the share balance would be 2% greater.

In considering the factors which have held down American Telephone shares marketwise it is, of course, obvious that distrust of all utilities has been the basic element. This has produced a very general feeling that the 8% dividend could not be long continued. Added to this was the knowledge that large holdings of the stock in concentrated blocks were being distributed. One factor which has begun to exert some influence and which by next spring will be decidedly influential is the convertibility of the 7-year notes issued last year. These notes are convertible into stock at 106. It will require the absorption of more than $45,000,000 additional stock before American Telephone shares can be expected to get materially above the 106 level. But such conversion would be very desirable and would pave the way for further note financing in 1920 if so desired. It may easily prove to be the case that the 1918 sale of 7-year convertible notes was a very clever piece of business.

The Bell system has been singularly happy in its financing. It has repeatedly secured new money just in the nick of time. The 1919 financing will certainly take care of the next six months and by that time the public psychology toward utilities may be materially different than it is today.

AMERICAN HIDE & LEATHER.—The statement of American Hide & Leather for its September 30 quarter will probably eclipse any former three months' showing in the history of the corporation.

It is understood that during the three months to September 30 last, American Hide & Leather gross sales amounted to approximately $10,500,000, or at the rate of $42,000,000 per annum, compared with a previous high in any fiscal year in its history of $29,454,428, which covered the fiscal 12 months to June 30, 1918. These gross sales represented an increase of $14,000,000, or 46% over the annual rate for the fiscal year to June 30 last. It is probable that net profits for the September quarter will exceed $1,800,000, a sum equal to nearly 15% on the $12,500,000 preferred stock in the hands of the public.

American Hide & Leather has now paid off at par the last of its first mortgage of 6% bonds which came due on September 1, 1919, and is at present entirely free from bonded debt. The amount of bonds which matured September 1 was $2,507,000 and in retiring these bonds the company was obliged to increase its floating debt by only $400,000.

American Hide & Leather is, of course, borrowing other moneys from the banks, but its total floating debt is less than $2,500,000 and is amply compensated for by the increased inventories which the present abnormal volume of business necessitates.

It is probable that something will be done before the first of January next in the direction of deciding upon the best method to follow in the liquidation of the accrued dividends on the preferred stock. On July 1 last these accumulated dividends amounted to 115%. Obviously they will have to be paid off in some form of securities..

FISK RUBBER.—The common shares of this company have recently been listed on the New York Stock Exchange, and have enjoyed considerable activity at rising prices. Rubber stocks, as a class, have of late proved very popular speculative media, and the Fiske Rubber Co. would appear to be getting its share of the general prosperity in the rubber industry.

The present corporation was organized in 1912 under Massachusetts laws and owns a large factory at Chicopee Falls, Mass., and also controls the Fisk Rubber Co. of New York, which acts as a distributor, maintaining some 125 branches, and the Federal Rubber Co., with a factory at Cudahy, Wisconsin. The principle output is automobile, motorcycle, bicycle tires, and mechanical goods.

The capitalization outstanding at the present time consists of $15,000,000 of 7% cumulative first preferred stock, $5,891,900 of 7% cumulative second preferred and $9,872,100 of common stock. The par value of both classes of preferred is $100, and of the common $25. The second preferred is convertible into common, four shares of the latter for one of the former, at any time up to November 1, 1923. Preferred dividends have been paid regularly, but so far the common has received nothing.

During the past few months there have been several changes in the capitalization, especially the retirement of the old first preferred issues and the sale of $15,000,000 of new first preferred. Indeed, the expansion in the company's business has necessitated considerable new financing from time to time. The total out standing capital obligations now amount to about $30,700,000, while at organization they amounted to only $13,000,000. The growth in sales and net profits in the last six years has been as follows:—

	Net Sales	Net Profits
1913	$9,272,629	$606,000
1914	10,857,323	942,204
1915	16,203,283	1,791,579 (14 months)
1916	19,457,788	1,836,829
1917	29,916,680	3,678,484
1918	36,682,167	3,760,279

The net profits given above are before any deductions for taxes, which in 1917 were estimated at $549,914 and in 1918 at $1,253,427. On the present capitalization the 1918 net after taxes would be equivalent to approximately $2.50 per share for the common.

For the first five months of 1919 the Fisk Rubber Co. reported a net profit, after estimated federal taxes, of $1,586,721. This would be at the annual rate of $3,800,000, which after preferred dividends would leave about $6 per share for the common shares. These earnings do not include any equity in the profits of the Federal Rubber Co.

Since May 31 the company has had some of the best months in its history, and in August was reported to be doing a gross business at the rate of about $60,000,000 annually, while the Federal Company was doing about $18,000,000 annually. There is, therefore, good reason to expect that 1919 will show final share earnings larger than those indicated by the five months' results. And, indeed, there will appear to be ample justification for the inauguration of a common dividend before very long.

PERE MARQUETTE.—Among the lower-priced railroad stocks the shares of the Pere Marquette Railway would seem to be entitled to more attention than they receive.

It will be remembered that the company was reorganized early in 1917, with a drastic reduction in funded obligations. The new company has outstanding $36,325,000 of bonds, $11,200,000 of 5% cumulative prior preference stock, $12,429,000 of 5% cumulative preferred and $45,046,000 common. The full 5% dividends are being paid on the prior preference stock, although nothing has so far been paid on the preferred, which carries a dividend cumulative since January 1, 1919.

The new management assumed the operation of this road on April 1, 1917. The earnings for the nine months to the end of the year were sufficient to pay full dividends on both classes of preferred and leave a balance equivalent to 3.25% on the common. In 1918, despite the obstacle of a greatly expanded wage and expense account, the actual earnings from operations were equal to 1.81% on the common, after allowing for the full preferred dividends.

But it has, apparently, been left for 1919 to show what the Pere Marquette is really capable of in the way of earnings. For the first eight months of this year it reports a net operating income of $4,328,278 as compared with $1,199,245 for the full twelve months of 1918. Every month this year has shown a balance on the right side of the ledger, and July and August have each produced a net of over $1,000,000. Ordinarily the first eight months produce about 57% of the year's net revenue. If this ratio should hold this year, the final net operating income would amount to something like $7,500,000, which would leave between 9% and 10% for the common stock. Even if the remaining five months of 1919 can only maintain the same average as the first eight, with a net of only $540,000 per month, the earnings for the junior stock issue should amount to 7% or 8%.

During the period of Government control, the Pere Marquette is entitled to receive a compensation which, after all deductions, leaves only about 1.58% for the common. This company, therefore, is in a position to welcome the prompt return of the railroads to private operation under almost any workable basis. It would seem, too, as though somethings might be done before long in the matter of inaugurating dividend payments on the preferred stock which is now quoted in the lower 40's.

WILLYS-OVERLAND.—Contrary to the general experience of the automobile companies Willys-Overland Co. is having in its December 31, 1919, year a period of moderate earnings.

This is not because there has been any slackening in the demand for the company's passenger cars. The 1919 year, in a very literal sense, is a 12-month of transition for Willys-Overland.

When the armistice was signed the company had practically gotten its factory system ready for 100% war work. The abrupt termination of hostilities involved a shift in factory alignment to a peace basis. And particularly it meant that Willys-Overland would proceed to put on the market its new model, low-priced 4-cylinder car, which had been mechanically perfected during 1918, but the quantity production of which had been held back because of war conditions.

Then came the strike at its Toledo plant, which for a considerable period suspended production and disrupted its operation forces. But the company stood its ground, elected to settle its labor troubles rather than compromise and in the end won the strike through the voluntary return of its employees. This point is important to bear in mind because Willys-Overland simply anticipated by a few months the rapidly climaxing labor unrest. It would seem as if the company's labor troubles were behind it. The effect of the strike upon earnings is too obvious to need comment. The March quarter was a good one, with net profits fully abreast of the $5.50 per share rate earned on the $39,428,000 common in the December 31, 1918, year. Net profits naturally could not be expected in the June quarter and the effect of labor disturbances will be seen in the September quarter as well.

However, the new 4-cylinder car has been in quantity production for some weeks. Daily output is about 240 of this model and by November 1 is expected to be at least 500 per day. In addition to the 4-cyclinder car, Willys-Overland is making at the rate of 18,000 Willys-Knight cars.

Had 1919 developed, as expected, the Overland production this year would have been close to 175,000 cars, comparing with a previous high record of 142,000 in the 1916 year and only 87,000 cars in the attenuated 1918 year.

But the 175,000 mark is a 1920 possibility. In fact, broadly speaking, the company next year should attain to the extensive prosperity which strike and change of models has denied it in 1919.

Although net profits this year will be less than in 1918 or 1917 the present $1 dividend on the common will be fully earned and the company should carry a fair amount to surplus.

The Moline Plow Co. acquired a year ago, is being welded into the Willys-Overland organization. Such developments take time and Moline Plow is not yet an important net profit producer. But the acquisition has had collateral benefits and in time should directly contribute a substantial sum to net profits.

Willys-Overland has, of course, reduced its original investment in the Curtis Aeroplane Co. But its interest is still extensive enough to make the present strong treasury position of the aeroplane company a matter of importance. The Curtis Co. has developed a respectable volume of civilian aeroplane work and the company's officials expect that it will retain and expand a peace time demand for aeroplanes and hydro-aeroplanes.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 827 October 17, 1919

THE GENERAL MARKET.—The feature that has impressed us for the last few days is that there has continued to be an enormous turnover of stocks, but for the first time in two months—with the exception of a very few specialties—there has been no appreciable advance. A student of market movements would probably say that this indicates either accumulation or distribution. It is hardly inconceivable that it can be the former; hence only logical that it must be the latter.

It seemed a few weeks ago as though the crest of the labor uneasiness had passed. This now looks rather doubtful. We do not allude so much to the steel strike which, undoubtedly, is gradually petering out, though even this promises to be fairly long drawn out, but as this subsides, it is succeeded by disturbance in other industries. We admit that labor unrest is, to a certain extent, a healthy sign, but continual strikes are certainly interfering sadly with earnings. They are cutting down production when that is the one great essential.

The weeks go by and no definite steps are taken for improving the foreign exchange situation. The lack of foreign demand for some of our commodities is now beginning to be keenly felt. Particularly is this true of the metals.

There is one big round of ammunition which may materialize for the bull side. We allude to the Supreme Court decision on the taxability of stock dividends. If this decision is favorable, there will unquestionably be a wholesale distribution representing profits that have been accumulating for years past. It is possible that even this has, to a certain extent, been discounted.

The thought should be kept steadily in mind that while we are in a great period of inflation, the stimulus is artificial, and cannot continue indefinitely. We are constructionists and believe that fortunes can be accumulated only by building up real values. But it would be folly to deny the fact that there must eventually be some reaction to this artificial stimulus. We do not mean to say that there is any immediate danger of a great calamity, marketwise or industrially. There are plenty of stocks which we would not think of selling at today's prices. But even admitting that we may not, as yet, have reached the crest of this wave of inflation, we do think that we have come to a point where at least some pause is advisable, and where additional commitments, marketwise, on borrowed money, are decidedly inadvisable.

THE UNIVERSITY OF ILLINOIS
DEC 16 1920

STANDARD MILLING.—The fiscal year of Standard Milling Co. ended August 31 last was the best in its history from the dual standpoints of gross sales and actual net profits. The balance of net after taxes, but before interest of $2,145,683, was a few thousand dollars more than the $2,131,072 earned in the 1918 year.

Due to the fact that the outstanding amount of common increased during the fiscal year by $387,100 to a total on August 31 of $5,960,142, the percentage earned on this issue figures out 26.9%, against 27.6% in the 1918 period.

In its past four fiscal years, the company has earned 109.5% for its common, of which 28% has been paid out in dividends, leaving better than 81%, which has been retained in the business.

Standard Milling is one of the three largest flour producers of the country. It had outstanding on August 31, $4,265,900 bonds, $6,488,000 6% non-cumulative preferred and $5,960,142 common. Bonds have been reduced by $1,082,000 during the past 24 months principally by conversion of the 6s of 1926.

Standard Milling is a typical food company and the record business of the late fiscal year fully sustains the assertion made while the war was still in progress that it represented a business with practically no adjustment period to consider when the war had ended.

Interests identified with this property believe that it has ahead of it several years of sustained strong earnings. The restrictions of war regulation have been largely removed. The price of wheat is, of course, fixed for 1919, but there is no longer an arbitrary fixation of a 25 cent per barrel of flour margin of profit. In addition, through its subsidiary, the Hecker-Jones-Jewell Milling Co., the Standard Milling does a large and growing business in the production of carton cereal products, including certain branded breakfast cereals.

The present cash distribution on the common is 10% and it is felt that this rate can be continued.

The company was obliged during the 1918–19 fiscal year to again accumulate a floating debt, which is, however, two-thirds a matter of exceptionally heavy inventories. The increase in inventories, in fact, was almost $3,000,000 to a total of $9,042,678. Presumably these inventories will liquidate before the return of a free market for wheat produces risk of shrinkage.

The company has completed and placed in operation a $1,000,000 flour mill in Kansas City. Its results will count in the earnings of the current fiscal year.

STEWART WARNER.—The record proportions of the 1919 automobile demand are very well attested by the prosperity of Stewart Warner Speedometer Corporation. This company is an excellent barometer of the automobile industry. It possesses virtually a monopoly of the speedometer business of the country, but this monopoly is based upon the superiority and selling price of its product and not upon any artificial or attempted thwarting of possible competitors. Over 90% of all automobile manufacturers use the Stewart Warner speedometer. The company is now producing nearly 4,000 speedometers per day, the largest output in its history.

In addition it has a large and growing business in the manufacture of the vacuum feed tanks, search lights and the small adjustable spotlight which has become very popular in recent months. The company is 30,000 units behind its orders for spotlights.

Stewart Warner has a very simple capital structure. There are no bonds, notes or preferred stock and but a single issue of $10,000,000 common stock.

Unless war and excess profits taxes considerably exceed $500,000 the net profits for the fiscal year to December 31 next should easily reach $2,000,000, or 20% for the stock.

This would compare with net profits after taxes of 15.9% in 1918, 18.8% in 1917, and 21.7% in 1916, its record year to date.

The stock has been a modest dividend payer, in view of the sustained strength of its earning capacity. In January the 6% rate on the common which had prevailed for four years was advanced to 8%. A further increase in January next to a 10% basis would occasion no surprise. The company has over $5,000,000 of net quick assets and its physical expansion can be taken care of very comfortably out of surplus earnings. There is, therefore, no compelling motive for withholding a larger return to stockholders.

By December 31 Stewart Warner should have book assets of close to $90 per share. In recent weeks the common has advanced very steadily to a recent high of 135, which is well above asset value. But in this respect the company's shares participate in the general character of all automobile stocks, which as class sell substantially in excess of book valuation, a reflection of their remarkable earning capacity. In other words, Stewart Warner is simply a further illustration of the fact that earnings rather than dividends or asset value are the determiners of market price.

REMINGTON TYPEWRITER.—Like Underwood Typewriter, the Remington Typewriter Co., in its fiscal year to December 31, is having a twelvemonth of relatively great prosperity. In fact, at the moment, it would seem reasonable to expect that the final balance for the $10,000,000 common would exceed by 20% the $12.74 per share earned on the junior stock in 1918.

It is only fair to admit that a portion of this gain will be made possible by the carryover of unfinished war orders into 1919, with the result that some war profits counted in the net results of the March quarter.

On the other hand, the war hurt the export business of Remington Typewriter very seriously. Like the Mergenthaler Linotype Co., the Remington Co. distributes its product in almost every corner of the civilized world. Its machines operate in 100 different languages and are handled by no less than 400 foreign selling agencies ranging from Alaska to Argentine and extending from Europe across China and Japan.

Up to 1918, Remington Typewriter had never earned as much as $10 per share for its common stock. Last year's good showing was possible only because United States Government orders crowded its factories to capacity. But the probable $14 to $15 per share on the common to be earned in 1919 is very largely the result of full capacity output, necessitated by pressure of peace-time business demand for typewriters. It may be stated that even without any carryover of war profits from 1918, Remington Typewriter would have earned as much this year as last for its junior stock.

It may be recalled that just about a year ago a plan was formulated by which it paid off 28% of accrued dividends on its $4,000,000 first preferred 7% stock. This payment was made on December 28, 1918, half in cash and half in 4¼% Liberty Bonds.

The following month the 32% of accrued dividends on the $4,994,000 second preferred were liquidated by a payment 6% in cash, 6% in Liberty Bonds, and 20% in first preferred.

As an incidental part of this financial plan, the company arranged to reduce its convertible bond issue from $4,400,000 to $1,650,000.

As a result of these financial adjustments, the company now has about $6,000,000 first preferred in place of an original $4,000,000, $5,000,000 second preferred and $10,000,000 common, the latter two classes of stock being unchanged. In other words, approximately $5,500,000 of bonds and accumulated preferred dividends were gotten rid of with an increase in stock capitalization of but $2,000,000.

In view of the necessary drain which this extinguishment of accrued dividends and bonds imposed on working capital it may well be doubted if there will be any hurry to resume dividends on the common. Probably the company will buy in and retire the balance of its first mortgage convertible bonds before doing so. This would leave the company free from any fixed charges. In 1914 the corporation had a heavy load of $14,400,000 bonds and floating debt. Today it has no floating debt and its bonds total but about $1,700,000.

MEXICAN PETROLEUM.—One reason for the persistent strength in Mexican Petroleum is the prospective early increase in its productive capacity to a total of 90,000 barrels per day. This increase would amount to 25% and will be made possible by increased pumping facilities which are rapidly nearing completion and which should be in operation by the middle of November.

Mexican Petroleum is shaping its plans for an even greater production than this by the middle of 1920. Such development would necessitate additional pipe line and these Mexican Petroleum will lay during the course of the next few months. The total new pipe lines to be laid will amount to more than 150 miles and will increase the capacity of the pipe lines to between 115,000 and 120,000 barrels per day.

These plans for increased production are in line with the expanding foreign field which the Mexican Petroleum and Pan-American companies have opened up. The British Mexican Petroleum Co., which was formed during the summer has a contract with Mexican Petroleum to take several million barrels of fuel oil and gasoline yearly. The British corporation will eventually own its own tankers, have tank farms and refineries in England and is owned 50% by British capital and 50% by the Pan-American Co.

England has never had any oil refineries of its own and the elaborate and expensive methods of importing oil and gasoline into England offer a unique opportunity for the new British Mexican Petroleum Corporation.

The earnings of Mexican Petroleum in the second half of 1919 will be in very sharp contrast to the rather mediocre record of the six months to June 30, when the company felt the maximum weight of the industrial confusion induced by transition from a war to a peace basis.

Mexican Petroleum and Pan-American Petroleum should be jointly considered as a unit.

The profits in crude oil production and transportation to the coast flow to Mexican Petroleum itself. The profits in marine transportation and distribution belong to Pan-American, which in addition owns Mexican Petroleum preferred and common, having a par value of $26,000,000 to $27,000,000 and a market value of $55,000,000. These Mexican Petroleum shares the Pan-American Co. is carrying on its books at $34,700,000.

AMERICAN SMELTING & REFINING.—The earnings of this company during the first half of the current year make a very disappointing showing, reflecting as they undoubtedly do the stagnation in the metal trades as a whole. Net profits after paying preferred dividends amounted to only $24,496, and after common dividends aggregating 2%, there was a deficit of $1,195,463.

These poor results are ascribed chiefly to the decreased demand for metals following the armistice and to high costs which were not susceptible of immediate curtailment. Many of the biggest mines of the country reduced their output as much as one-half, and, on the other hand, wages and the cost of some supplies have not only not decreased but have actually increased. Moreover, some increased treatment charges secured on long term contracts during the war terminated and shipments under these contracts have not been profitable. It is hoped that they can be altered in the near future to the benefit of the company. Then, again, Mexican operations in the vicinity of Chihuahua were seriously interrupted by the activity of the revolutionaries in that region.

These unfavorable conditions have been reflected in the balance sheet for June 30, 1919, in a decrease in cash of over $9,000,000, and in accounts receivable of $8,500,000, and in an increase in metal stocks of $5,500,000. Cash now stands at the lowest figure in seven years, and metal inventories at the highest. In 1916, when metal prices probably averaged higher than now, the stocks on hand were valued at only $27,400,000, as against $46,400,00 on June 30 last.

However, the outlook for the American Smelting & Refining Co. is by no means as discouraging as the recital of the misfortunes of the first six months would indicate. The last half of 1919 should show a material improvement in earnings. In the first place, there appears to be a more active demand for nearly all metals, and operations in Mexico are steadily getting better. But, perhaps most important of all, is the advance in the price of silver. The American Smelting Co. is the largest producer of silver in the world. Last year its total output of silver was reported as 72,572,000 ounces, but this, of course, is not all the product of the company's own mines. An appreciation of 20 cents or more in the price of silver would mean a material increase in the profits.

The common stock is now on a 4% annual dividend basis. No lower rate has been paid than this in the last fifteen years. And it would not seem as though the declaration of the first half year's dividend out of surplus was open to any question, particularly in view of the fact that in the three years from 1915 to 1917 inclusive, the surplus earnings after all payments and distributions were equivalent to approximately $50 per share on the common stock.

REPUBLIC IRON & STEEL.—The report of this company for the quarter ended September 30 offers ground for considerable optimism regarding the steel industry, although the ill effects of the present strike may retard the improvement.

With the ending of the war, the earnings of the steel companies dropped almost to the vanishing point. In the first quarter of 1919, net after all deductions and dividends amounted to $208,591, and in the second quarter there was a deficit of $334,448. Thus, in the half year, earnings were not sufficient to cover the 3% dividend paid on the common stock, being equivalent to only 2.54%, or at the annual rate of 5.07%.

During the third quarter, however, there was a surplus after all charges and dividends of $425,782,

and the balance available for the common stock was equal to 3.06%. This is by far the best showing of the year, and if the last quarter is as good and no better, the twelve months' balance would be between 8% and 9% for the junior stock issue, or more than sufficient to cover the 6% dividend.

The best feature of the quarterly report, however, is found in the statement of unfilled orders. These amounted on September 30 to 433,495 tons of finished and semi-finished products, as compared with 187,361 tons on June 30 and 114,305 tons on March 31. The present tonnage is greater than at any time since September 30, 1917, and compares with a high level of 617,950 tons at the close of 1916. The recent increase in incoming orders would indicate that from now on profits may be expected to accumulate at a much more rapid rate than for some time past.

CUBAN PORTLAND CEMENT.—One department after another of the second section of the mill has been going into commission, and we are glad to announce that after an irksome delay for causes quite beyond the control of the management, the kiln was placed in operation on Wednesday of this week, so that, hereafter, the entire plant may be regarded as in full operation.

It has been nearly a year and one-half since the first section was put into commission. During that period it has been producing for the greater part of the time close to 1,000 barrels of cement daily, so that the entire plant should be able to produce nearly—if not quite—600,000 barrels per annum.

Under the conditions costs have been quite satisfactory. Now, with overhead expenses per barrel cut in half, and a material reduction in the manufacturing cost, the final net profit should reach very satisfactory figures.

Cuba is, of course, exceedingly prosperous and there has been at all times a demand for the full capacity of the plant.

WESTERN UNION is selling around the lowest price of the year—ten points below the high figure of a few months ago and within six points of the low levels of 1917 and 1918. At current prices the stock nets 8½%, clearly indicating some doubt as to the continuance of the present rate of dividends.

It is difficult to ascribe any tangible reason for this apprehension. It is quite true that, previous to the war, the company had not shown a net income sufficient to maintain the present 7% rate—the record for the last ten years having been as follows:—

	Earned		Earned
1918	11.64%	1913	3.24%
1917	14.40	1912	4.01
1916	13.59	1911	5.33
1915	10.19	1910	5.60
1914	5.33	1909	5.62

It would seem to be equally certain, however, that the company will not go back to the pre-war level of earnings.

It will be noted that in 1918, of which five months were under Government control, the earnings amounted to 3% less on the capital stock than in 1917. So far this year the operating revenue shows a gain of $5,400,000 and the net income of $1,115,000.

To be sure, the entire increase in the net income has accrued since the first of April, when rates were increased 20%, and is distinctly traceable to this influence, but as the management stated recently, "so long as the reasons which caused these increases prevail, no reduction in rates can be made if adequate service is to be provided and justice done to the employees."

Considering that, from January 1 to December 31, there was an increase in wages of $10,600,000 and that there is, to say the least, no tendency toward reduction, the equity in continuing the rate increase is quite apparent; in fact, this has been approved by the Public Service Commission and opposed by only one State.

One fact in connection with the company's revenue that should not be overlooked is that during 1918 the Government traffic was handled at $5,800,000 below actual cost of operation and that the total difference of about $9,000,000 between commercial and Government land and cable tolls was the company's additional financial contribution toward the cost of the war.

In short, as in the case of the Telephone, the maintenance of the 7% dividends would seem to hinge almost entirely on the rates that the company is allowed to charge. Considering that the property has a value, after deducting liberal depreciation, equivalent to $133 per share—7% dividends would call for an actual return on the investment of less than 5½%.

One decided advantage that the Western Union enjoys is that it has been self-contained financially. The stock capitalization has remained unchanged for many years, while the bonded indebtedness has actually been reduced from $40,000,000 to $32,000,000.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 828 October 24, 1919

THE GENERAL MARKET.—In developments of a very positive nature the past week has had comparatively little to offer, yet the stock market speculation has attained a violence that has seldom been equalled. The daily turnover has steadily mounted, surpassing in the last few days the two million share mark and fluctuations in some of the industrial specialties of ten or twenty points a day have become quite common.

In the wild scramble for stocks there is a disposition to ignore permanent values, as well as the possibility of unfavorable future developments, a feature that usually indicates a wide public participation in the market. High money rates have little or no effect, except temporarily, in checking the enthusiasm. With any reduction in call money rates the advance is resumed, although there is no real relief in the banking strain, and probably cannot be for some weeks yet, until the peak of the crop movement is passed. Even then any improvement will be only a relief and not a fundamental reversal of conditions Since early in the year the loans of the New York City Clearing House Banks alone have increased $700,000,000, while deposits have increased only $400,000,000 and the proportion of reserves to loans has fallen to the lowest point in years. This is a state of affairs that has never before been compatible with a continuation of a broad advance in security prices.

Labor troubles, too, instead of subsiding, appear to be assuming an even more menacing aspect. The steel strike is losing force, but has not been called off, and there is no indication that it will be in the immediate future. A coal strike is threatened for November 1, which if carried out would probably tie up most of the industries of the country in a short time. Then again, we may shortly hear of new demands from the railroad brotherhoods—the period of truce being nearly over and no progress having been made in bringing down the cost of living. The extremely radical nature of some of these disturbances has already been pretty effectually proved in the Senate investigation of the steel strike, in the impossible demand for a thirty-hour week by the coal miners, and in the statement issued by the American Federation of Labor that only a very small percentage of the strikes now going on have the sanction of the national organization. At the same time there is a great deal of real social unrest and the strike, interfering as it does with production, is the worst possible means of undertaking to alleviate it.

However important, the banking situation and labor troubles are more or less of an old story and the market of late has been more disposed to look upon the favorable developments, such as the arrangement for a $250,000,000 loan to the United Kingdom and the victories of the Anti-Bolshevik armies in Russia. The success of the British loan will be watched with interest, as it is the first attempt at a big private loan to a foreign country since the ending of the war, and will, undoubtedly, be followed by others, with consequent improvement in foreign exchange rates.

A decision in the stock dividend case is looked for in the near future, and it is confidently expected that it will be favorable. Indeed, many corporations, possibly in anticipation of this, have already announced stock distributions, and it may be that, as a bullish factor, marketwise, it has been pretty well exhausted. For nearly two years now the trend of the market has been upward, and in that time the average of twenty industrial stocks has advanced from 66 to over 117. We cannot but feel that this advance has discounted a great deal. The technical position of the market is probably weaker at present than at any time since last July. Accordingly, the taking of profits in those stocks which have enjoyed large advances, and the exercise of extreme caution in the making of new purchases, would seem to be the wisest method of procedure.

PUNTA ALEGRE SUGAR.—The Punta Alegre Sugar report for the year ended May 31, 1919, confirms earlier estimates with a net profit for the year of $1,573,519. This compares with $763,974 earned in the 1918 year, and is equivalent to $20.39 per share on the 77,200 shares of common stock outstanding at the close of the fiscal period.

Since that time some very important changes have occurred in the capitalization as a result of bond conversions and new common stock issues and the retirement of the preferred. The outstanding capitalization now consists of $231,000 of first mortgage 6% bonds, $332,000 of collateral trust 6% bonds and 223,614 shares of common stock, par $50. The remaining bonds have been called for redemption on January 1, 1920, and it is expected that practically all of them will be converted into stock on or before that date. On the amount of stock that would be outstanding, assuming that all bonds are converted, last year's earnings would be equivalent to about $8 per share.

The 1918–19 production amounted to 605,150 bags. With the addition to the Punta San Juan mill,

which should be ready next March, it is expected that the 1919–20 output should be 700,000 bags. Last year's crop was sold to the United States Sugar Equalization Board for $5\frac{1}{2}$ cents per pound. In the absence of any concerted action to take over the 1919–20 crop, there has been free bidding for raw sugars and sales have been made at more than 2 cents per pound over last year's prices. On a production of 700,000 bags a cent increase in the selling price would mean about $10 per share larger earnings for the Punta Alegre stock.

Some action may yet be taken in regard to purchasing the unsold portion of the Cuban crop, but such action could not interfere with contracts already made and very probably a higher price than last year would have to be paid. Punta has sold over 100,000 bags of the 1919–20 crop in advance on a very satisfactory basis, so that splendid earnings for the current fiscal period are already assured.

ADVANCE-RUMLEY CO.—The prosperity of the agricultural implement companies as a class in 1919 has included the Advance-Rumley Co. This concern is the December, 1915, reorganization of the old M. Rumley Co., and under the present management has steadily expanded its earning power.

An original total of $3,500,000 10-year 6% debentures had been reduced as of December 31 last to $1,545,000 and by the close of this year should be down to about $1,300,000. The sinking fund will easily take care of these notes by the time they mature in 1925, provided the company has not anticipated their maturity, which is more probable.

The $12,500,000 preferred became cumulative on January 1 of this year and an initial dividend at the full 6% rate was declared early in January.

In 1918, for the first time in its history, the company showed a balance earned for the $13,750,000 common. This balance amounted to but 3.2%, but it will easily be trebled in the current fiscal year ending December 31. In fact, common share profits running as high as 12% are not impossible.

The company has had capacity operations all through 1919 and gross sales have been running at the rate of nearly $18,000,000, or substantially double those of the previous year.

Advance Rumley makes a fairly wide line of agricultural implements including tractors, plows, separators, hullers, trucks, shredders and engines.

There is a general consensus of opinion that 1919 has been a poor year for the tractor producers. The manufacturers of gasoline tractors have had an up-hill fight to make the sales this year. This is not because of any lack of purchasing power on the part of farmers but because the record of failures among gasoline tractors has been so impressive as to cause farmer buyers to adopt a distinctly "from Missouri" attitude.

Advance Rumley has stuck to its four sizes of oil pull tractors which are admitted to be efficient and which stand up under the heavy overload which farming work throws on a machine that may be called upon to perform 12 to 16 hours a day.

Its tractor sales have been large and on a basis such that the company is today carrying a relatively smaller total of farmers' notes than at any previous time in three years.

Advance Rumley like all implement producers requires a large working capital. The balance of net quick at present is not far from $15,000,000, a figure which it has consistently maintained for four years.

There has been some talk of common dividends. But nothing in this direction will be considered until next year. The heavy gain in gross sales and prospect of incoming export orders in 1920 have made it advisable to build up working capital still further. By December 31 next, however, Advance Rumley will have a surplus of about $3,300,000, all of which has accrued since the December, 1915, reorganization. This surplus is very nearly equal to $25 per share on the common, or 50% of its present market price.

MAY DEPARTMENT STORES.—May Department Stores must be grouped in that considerable class of industrial companies which will undoubtedly distribute substantial common stock dividends provided the Supreme Court holds that such dividends are not subject to tax.

This company's fiscal year ends January 31 and gross sales during the eight months to September 30 were at the rate of slightly more than $50,000,000, a high record figure and a gain of $9,000,000, or 21% over the $41,179,261 gross of the January 31, 1919, fiscal period. This is, furthermore, a 100% increase over the $25,409,150 gross of the January 31, 1915, year.

And yet during all the past five years the company's capital has undergone no increase. In fact, there has been through sinking fund operations a gradual paring down in the amount of preferred stock which originally stood at $8,250,000 and is at present $6,500,000, a reduction of $1,750,000.

As originally capitalized May Department Stores had about $1 of capital for each $1 of gross sales. The present capital consisting of $6,500,000 7% preferred and $15,000,000 common, a total of $21,500,000, is carrying a gross of over $50,000,000, a ratio of approximately $2.25 of gross business for each $1 of capital obligation.

Not only has fixed capital been thus quietly cut down, but May Department Stores at present has no floating debt and has nearly $5,000,000 in cash, Liberty Bonds and certificates of indebtedness. No longer ago than January 31, 1915, the balance sheet showed notes payable of $3,025,000 and a net working capital of $4,406,188, the present working capital is understood to approximate $11,000,000. In the 1914–1915 year the ratio of working capital to gross sales was hardly 1 to 6. At present it is about 1 to $4\frac{1}{2}$. That working capital is adequate would seem to be conclusively demonstrated by the fact that

despite the big gain of over $15,000,000 in sales in two years the company has entirely eliminated its floating debt.

From the standpoint of the $15,000,000 common, the best years which May Department Stores has ever had were the January 31, 1917 and 1918 fiscal periods, when the share balance was practically identical, amounting in one case to 16.83 and in the other to 16.82%. The January 31, 1920, year will probably outstrip any former showing and common stock profits ranging between $20 and $25 per share may fairly be said to be in prospect as matters line up at the moment.

May Department Stores is now paying dividends at the rate of $6 per share on its common Until this year the normal rate on the common was generally considered 5%. But in the lean period 1916 and 1917 only 2¾% was distributed on the junior issue. It is only proper to state that except for its unfortunate experience in Pittsburgh, the common dividend would probably never have been cut below 5%.

The question of a common stock dividend, in view of the company's present strong financial position, will come to the front once the Supreme Court has rendered a favorable decision. May Department Stores, if it paid a stock dividend of $5,000,000, or 33⅓% on the common, would be capitalizing less than the amount which has been added to working capital since January 31, 1915. It is this expectancy which is undoubtedly contributing to the steady advance in the shares. In January last they sold as low as 60. In June they were about 105 and at present prices of 125 have doubled from the year's low.

TRANSUE & WILLIAMS.—The recent strength in Transue & Williams shares is a reminder of how many affiliated concerns are favorably affected by the current prosperity of the automobile industry. Transue & Williams is probably the country's largest steel forging organization and for six months past its capacity has been absorbed by demand for steel forgings for axles, crank shafts, gears and like automobile parts.

The company has an exceedingly simple corporation structure, with 100,000 shares of stock of no par value and without any preferred or bonds. Moreover, the company's working capital has been continuously adequate for the handling of its production and sales without dependence upon bank loans.

The present company was organized in 1916 as the successor of a company that had been in successful operation for a number of years. In the two fiscal years to December 31, 1917, Transue & Williams earned $21.66 a share on its 100,000 shares of stock. In 1918, with its plants practically commandeered by the Government, the company did well to earn its $5 dividend. In fact, the actual earnings of $5.15 per share afforded so slender a margin over dividends that for a time it was suspected that dividends might have to be cut

But there has been a very sharp revival in earning power since March 1. In the eight months to August 31 the company earned the year's estimated war taxes and over $5.50 per share on the stock. For all of 1919 the outlook is favorable for share profits of between $8 and $9.

The argument of those who are favorably disposed toward this property is that in the present condition of the automobile trade, Transue & Williams has every prospect of record profits in 1920.

The company's snug financial position, its self-contained position so that it can comfortably finance physical expansion out of profits, lend considerable weight to the claim that early in 1920 the present $5 dividend can be conservatively increased.

As events have turned out, it is seen in retrospect that 1918 was a year of excessive difficulty and that only a really efficient company could have survived the heavy burden of Government interference and restriction of normal production to which Transue & Williams was obliged to submit in 1918.

BOSTON & MAINE.—Although the Boston & Maine is not likely to show any earnings for its common shares from actual operations this year, it has, nevertheless, shown an interesting improvement in net during the past several months.

Up to May 31, the company had reported a deficit in every month but one, and the total net operating deficit amounted to $673,075 as compared with a surplus of $386,148 for the same period last year. Beginning with June, however, there was a noticeable increase in net. For that month it amounted to $750,355, jumping to $795,109 in July and to $1,344,822 in August. For the eight months, therefore, the company reported a surplus of $2,217,211. The Boston & Maine is essentailly a summer road. The six months from May to October, inclusive, ordinarily produce about 70% of the year's net income. With two good months still to be heard from, it would not seem at all unreasonable to look for a net of around $4,000,000 for the full year. If this figure can be attained, it would compare with a 1918 net of $1,737,008 and a Government guarantee of $9,618,770.

This would not, of course, be any very remarkable showing, and would not leave anything for the stock. The chief point, however, is that in the last three months the road has earned its own way for the first time since October, 1918, and this has been accomplished as a result of better business and not as a result of big increases in freight and passenger rates as was the case in the summer of 1918. The net earnings of August compare very favorably with the average for a period of years.

It was recently reported that the Interstate Commerce Commission's tentative figures of valuation for the entire Boston & Maine system show a valuation about 10% in excess of the total capital issues of all the lines making up the system. While the details have not as yet been given out, this would seem to effectually disprove statements that have frequently been circulated that there was any amount of "water"

in the road's capitalization, and is a tribute to the efficacy of the Massachusetts laws regarding new security issues. The terminal properties in Boston alone are valued at about $19,000,000, and those of the Boston & Maine R. R. proper at $6,300,000. That the preferred and common stocks of the parent company are now selling in the market for about $14,500,000, or less than the value of the Boston terminal property, is a striking commentary on the railroad situation.

If the railroad bill as finally passed by Congress should permit a return of only 5½% on the valuation of the road, it would amount in this case to an annual income of approximately $12,650,000 on an estimated valuation of $230,000,000. On the basis of present leases and fixed charges this would leave in the vicinity of $6 per share for the common stock now outstanding.

CENTRAL LEATHER.—Earnings of Central Leather, the country's largest sole leather producer, continue to reflect the current world shortage of hides and skins and the demand for leather goods which has made 1919 a year of such prosperity for boot and shoe companies.

In the first nine months of 1919 the net earnings of Central Leather by quarters have been as follows:—

	Net After Interest	Balance for Common	% Common
September quarter	$4,012,195	$3,429,463	8.7%
June quarter	4,239,345	3,656,613	9.2
March quarter	2,112,918	1,530,186	3.8
Total	$10,364,458	$8,616,262	21.7%

In a normal year the September quarter is easily as good as the March quarter with Central Leather, while the final three months is apt to be larger than either of the three preceding quarters. This was, of course, not true in 1918, when earnings for the three months to December 31 were adversely affected by the slump following the armistice and when the company's $63,000,000 inventory was seriously regarded as a source of considerable danger.

It is always easy to philosophize in retrospect and the really sensational advances in hides and leather of the past 10 months show how groundless were the fears entertained regarding Central Leather's inventory. In fact, an important basis of the 1919 prosperity has been the existence of just this strong inventory situation.

Central Leather in nine months has earned 21.7% for its $39,701,000 common, after interest, taxes, depreciation and dividends on $33,299,050 preferred. This 21% is three times the 7% dividend which will be paid on the common unless some unexpected extra is voted before the close of 1919.

Should Central Leather do as well in the December quarter as in the three months just elapsed it would mean common share profits in 1919 of 30%, thus equalling the 1917 record, but falling slightly short of the big year of 1916, when the company confessed to common share earnings of 33.14%. Assuming earnings of 30% the comparison over five years would work out as follows:—

1919	1918	1917	1916	1915
30%	10.44%	30.42%	33.14%	10.82%

In other words, in five years Central Leather would have earned 114.8% for its common, of which 80% or over $31,000,000 would have been returned to the business.

At the close of 1918 the asset value of the common was $160 per share. It should on this hypothesis slightly exceed $180 per share by the end of December next.

It is only fair to state that if the December quarter this year produces a common stock balance less than the 8.7% earned in the September three months, it would not be occasion for criticism. Obviously the company has worked out of its lower-priced hides. It is doing business on a very high-price level for its essential raw materials. From now on profits must depend more on volume and less on appreciation in inventory.

Against this is the fact that following the signing of the peace treaty some large export orders are practically assured. Then again the August agitation regarding the cost of living and the broadsides hurled at packers and tanners have largely ceased. The mass of the population have come to recognize that the world is in the grip of economic conditions which only time can restore to normal.

Leather, and particularly sole leather, is a very essential commodity. History has shown that following the Civil war sole leather prices remained high for a series of years and receded very gradually. There is, therefore, a very fair argument for the contention that Central Leather has ahead of it several years of good business. The common stockholders have so far had a moderate return. Possibly their day is coming.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

H A

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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No. 829 October 31, 1919

THE GENERAL MARKET.—The character of the market has changed but little during the week just passed. Trading has continued at a record-breaking rate and while a sudden and severe reaction was experienced last Thursday and Saturday, the recovery has been rapid, and many new high levels for all time have been established among the industrial favorites.

The reaction was ascribed to the calling of the coal strike and the break-up of the industrial conference with the withdrawal of the labor delegates. But while these events were of a very disturbing nature, it is probable that the real causes were to be found in the overextended condition of the market itself. With that condition partially corrected there is a disposition to look on the bright side of the labor question again. Nevertheless, organized labor now appears to be completely dominated by the radical element and their defiant attitude coupled with the firm stand taken by employers' group in the Conference, and later by the Government in the matter of the coal strike, may precipitate the long awaited "show-down." Judging from the action of the stock market the outcome of this is not to be doubted, and probably in the long run it would be the best thing that could happen for the industrial future of the country, although it might be accompanied by many unpleasant features. Certainly as long as radicalism is allowed to go its way unchecked there is no such thing as industrial peace and capacity production possible.

A study of the foreign trade figures for September throws some light not only on economic rehabilitation of Europe, but also on the possibilities of relief in the matter of exchange. The opinion has been advanced that the tide of foreign trade had turned and from now on would flow with increasing volume toward this country. Imports of $435,000,000 for the month were by far the largest ever reported, exceeding by more than $90,000,000 the previous high of last July and by more than $250,000,000 those of the biggest month before the outbreak of the war. Of course, the magnitude of the present figure is in part due to higher prices, but even so it is probably true that we are now importing more than ever before. Exports are still on a big scale, $593,000,000 as compared with a previous record of $918,000,000, but the excess of exports was smaller, with two or three exceptions, than in any month since 1915. If this tendency continues, it should provide a gradual corrective for low foreign exchange quotations, and it will also, undoubtedly, contribute toward a lowering of commodity prices by bringing imported goods into competition with domestic. In spite of this and of the prospect that other foreign loans would follow the successful flotation of the United Kingdom notes, exchanges on the leading countries have remained notably weak.

As far as the outsider can see, little progress seems to have been made toward reaching a solution of the railroad problem, and unless the peace treaty can be removed soon from the center of the stage, it looks as though it might be difficult for Congress to devote to this urgent matter the attention it deserves before the end of the year. Indeed, it has already been suggested that the Federal control and guarantee of income might have to be extended for a few months into 1920. However, a great deal of work has already been done by committees, and while none of the plans most prominently discussed can be received with enthusiasm by railroad security holders, the Plumb plan has apparently been completely discarded and the others provide reasonably well for the future development of our transportation system and for the protection of the investors therein. It is, nevertheless, almost impossible to work up any interest in railroad securities and every little flurry in them quickly peters out.

General business, except where interrupted by strikes, continues to be good, and there is no indication of any very decided change in the near future. Indeed, certain lines such as the steel industry, which has been a laggard so far this year, are just beginning to come into their own, and may conceivably have many months of improving earnings ahead of them. It is, however, the function of the stock market to discount the future and the mere fact that business is active and is likely to continue so for some time longer does not mean that security prices must advance materially above this level. It will be remembered that before the break of last August the market experienced several violent reactions and quick recoveries, very similar to those of last week. In fact, such action is very often indicative of the approaching end of a movement—whether permanent or temporary, it remains for future developments to determine.

INTERNATIONAL AGRICULTURAL.—The record of International Agricultural Corporation in its June 30, 1919, fiscal year was not only the best in its history but it stands out in fairly sharp contrast to the earning achievement of most fertilizer companies.

Net profits after interest and depreciation were $2,207,405, and after deduction of $600,000 for general reserves and taxes there remained a balance of $1,607,405, a sum equal to 12.3% on the $13,055,000 pre-

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ferred. These profits compare with $1,168,269 or 8.9% earned in the 1918 fiscal period and 4.4% in 1917.

The progressive betterment in International Agricultural's earning power is slowly but surely laying the foundation for the resumption of dividends at the full 7% rate. Some action in this direction should surely be undertaken before June 30,1920. Meantime it is equally clear that the company has not yet reached a position where it can consider the payment of the accrued preferred dividends now amounting to about 40%. For a few years it would seem as if the best that the company could be expected to do would be to pay 2 or 3% per annum on account of accruals.

One improtant side to International Agricultural operations is disclosed by comparison of balance sheets. The working capital balance at the end of June last was $7,072,938, an increase of $1,697,632 or 31.6% during the year, and a gain of $3,842,753 or 118.9% as compared with June 30, 1917. The steady upbuilding of working capital is well pictured in the following:

Working Capital Position.

	1919	1918	1917	1916
Current Assets.....	$12,657,029	$10,336,947	$7,075,523	$5,201,548
Current Liabilities.....	5,584,091	4,961,641	3,845,338	1,863,274
Working Capital	7,072,938	5,375,306	3,230,185	3,338,274

Since 1914 sinking fund operations have reduced bonds by $2,537,400 or 20.4%. If working capital continues to expand at the rate of the past year the company should have 100% of quick assets for the par of its bonds by the end of the 1921 year.

The company will increase its fertilizer capacity by 75,000 tons during the 1919–20 fiscal year. Its German potash property has been undamaged during the war and it is possible that in this property the company has an asset very much more valuable than the nominal figures at which it is carried.

PULLMAN.—Owing to the taking over of this company's car operating business by the Railroad Administration, no complete annual report had been issued since that for the year ended July 31, 1917. The recently issued statements for the years ended July 31, 1918 and 1919, therefore, should prove of considerable interest to shareholders.

Beginning with January 1, 1918, the sleeping and parlor car branch of the business was assumed by the Government, and the only income the company received from that department was the Federal compensation at the rate of $11,750,000 annually. This was based, as in the case of the railroads, upon the average earnings for the three years ended June 30, 1917. The company, however, retained its manufacturing business as before.

The 1918 year contained five months of private operation and seven months of Federal control, and produced a net profit of $13,402,206, or 11.17% on the stock. The 1919 year showed a net of $12,730,057, or 10.61% for the stock.

By far the greater part of the Pullman Company's earnings is derived from the operation of its cars. The Railroad Administration has, of course, several times increased the wages of the 20,000 odd employees of the car service in order to place them on a par with other railroad employees. Fares, however, have also been increased. Accordingly, the relinquishment of Federal control will find this company with a greatly expanded wage account and may make it difficult to show as large earnings from its car business as before.

On the other hand it is interesting to note the expansion in manufacturing profits. In 1919 these amounted to $3,689,935 as compared with $3,216,760 in 1918, and $1,720,255 in 1917. Furthermore, one of the striking features of the Pullman reports in recent years has been the charge-offs for depreciation. In the five years from 1913 to 1917, inclusive, a total of close to $42,000,000 was deducted from earnings for depreciation, or an average of nearly 20% of the annual gross income. These large depreciation charges furnish an element of great strength and make it possible for earnings to shrink considerably without in the least endangering the 8% dividend.

In connection with its manufacturing business it may be more or less significant that at the annual meeting the stockholders will vote on an amendment to the company's charter permitting it to "manufacture other articles consisting, or partly consisting of metals, wood, or other substances, and to sell or lease such articles." This, together with the report that the corporation had taken a contract with a motor concern to build automobile bodies, may mean the entrance of the Pullman Company into other fields than the manufacture and operation of railway cars

SWIFT & COMPANY.—During the past two months the big packers of the United States have had to absorb one of the most severe and unexpected inventory shrinkages that they have experienced in many a year.

The story is so interesting that it deserves a little detailed explanation.

The killing and buying season of the packers begins about November 1. From that date until July 1 the inventory of the packers as a group is on a gradually ascending scale. By July 1 the packers enter their largest selling season and for two months rapidly distribute their products to their legion of customers all over the world.

In September and October inventories of the packers are lower than at any other period and this is one reason why Swift & Co. for years closed its fiscal 12 months on September 30. Last year it moved its fiscal year forward one month to November 2.

The packers assembled their 1918 inventory in expectation of a normal, steady market during the heavy selling season of 1919. They quite naturally figured on the continuance of a very heavy export demand for packing house products. But two factors that had been totally unforseen developed.

In the first place, disorganization of exchange prevented Europe buying in the quantity anticipated. The check in European demand, which undoubtedly is only temporary, created a condition where the packers were moving too small a volume of products to market to liquidate inventory as rapidly as expected. Just at the time when the exchange disorganization was making itself felt the Government precipitated its campaign for reduction in the cost of living. The two factors coming in conjunction produced a very heavy decline in the price of cattle and particularly hogs. In July the price of hogs was 23½ cents and within the last week or two the price has been as low as 13½ cents, a decline of 10 cents a pound. The reduction in cattle prices has not been quite so severe, but still has been drastic enough to have created a very serious inventory shrinkage. It has been estimated by Chicago interests that during the past 60 days the five leading packers have taken losses in inventory running between $50,000,000 and $60,000,000.

There is, of course, a bright side to this situation. It consists in the fact that in the killing and buying season now about to start, the packers will begin to assemble their inventory on a very much lower price level than would have been the case had there not been this drastic break in prices, so that for 1920 it is entirely conceivable that some advance in the general level of cattle and hog prices will at least partially atone for this abnormal and unexpected inventory shrinkage.

It should, of course, be appreciated that a company so vast as Swift & Co. never reduces its inventory to a point which is inconsequential. For instance, on November 2, 1918, Swift & Co. had an inventory according to the balance sheet of $179,000,000, a sum equal to 15% of its annual gross turnover.

INTERNATIONAL PAPER.—A very interesting situation exists in the newsprint industry of the country and one for which there has been no precedent in recent years. Briefly it is this: There exists today, and has existed for some months, so serious a shortage of newsprint that the newspapers of the United States are no longer fighting about price but are almost wholly concerned with the question of getting paper at any price. It is reliably estimated that this country could absorb 20% more newsprint than the mills are now producing and present output is larger than at any time in several years.

It may be recalled that for several years the price of newsprint has been fixed by the Federal Trade Commission. The 1919 contract price was established by the commission at 3.75¼ cents per pound. The period of commission price fixation is just expiring and November will see a free market for newsprint.

The large producers like International Paper sell their output on yearly contracts, the great bulk of which are made in December and January.

But there is always a "spot market" for newsprint and this market is a fair index of the current underproduction. Newsprint in the spot market commands as high as 7 cents per pound or 3¼ cents above the commission fixed, an increase of 85%.

The bearing of this discussion lies, of course, in its application to 1920 earnings of International Paper. The company obviously has very little paper to sell in the spot market. But in 60 days its 1920 contracts will have been signed. Very clearly they will be at some price materially higher than 3.75 cents per pound, although very probably not at so high a figure as 7 cents. The company can very properly expect a higher price as its cost of production has been steadily rising month by month and some of 1919 output has been distributed at no profit whatever.

To those who are aware how keenly the newspapers in past years have contested every fraction of a cent advance in price of newsprint, their present inertia may seem inexplainable. It is, however, undoubtedly due to the fact that the one cent paper has disappeared. The two cent paper is here apparently for some years at least. Furthermore the advertising volume carried by the papers is 40 to 50% in excess of anything heretofore known. So great has advertising become that the suggestion has been made that advertising rates be generally increased in the expectation that a certain amount of advertising would thus be eliminated and some consumption of paper saved. Incidentally the printing strike in New York is saving 700 to 800 tons of paper daily, much of it newsprint.

In its fiscal year to December 31, 1919, International Paper ought to equal the 18.4% earned on its $19,764,000 common in the 1918 year. If realized, this would mean in four years 92% earned on the common, or 50% more than the current market price.

With the prospect of a brilliant year in 1920 and with its financial position better than at any previous time, there are some fairly strong arguments for an initial dividend on the common before the close of 1920.

UNITED STATES INDUSTRIAL ALCOHOL.—The new financing which United States Industrial Alcohol has arranged will accomplish the double purpose of giving the company for the first time since 1915 an adequate working capital and at the same time will finance the company's entrance into quantity production and general distribution of its new motor fuel.

There has been a strong disposition in certian quarters to make a good deal of a mystery out of this

Industrial Alcohol financing. The motives for the doubling of the common stock by issuance of 120,000 shares at $70 per share were not fully explained in official circulars sent to stockholders. Possibly the need for the additional funds seemed so apparent that directors did not deem a detailed explanation necessary.

One feature of Industrial Alcohol which has puzzled the financial community for three years has been the company's ability to get along with an apparently inadequate working capital. For example, on December 31, 1918, the close of its fiscal year, the excess of current assets over current liabilities was but $1,954,441 and two years before that there had been an actual deficit of working capital.

The $8,400,000 of new cash arising from this financing should, therefore, readjust the working capital position. It is understood that only a portion is going into additional plant and physical equipment. The Maryland plant has been adjusted to a peace time basis and is already producing chemicals in conformity with normal commercial demands.

It is of course obvious that the feature of Industrial Alcohol operations which is of most immediate interest, certainly of most immediate speculative interest, is its ability to make a commercial success of its new motor fuel, Alcogas. Any doubts as to the practical value and success of this new automobile fuel have now been removed. It is commercially practical and it is for sale in limited quantities. It will still be some months before the company can begin to do much better than fill a fraction of the demand which already exists for this fuel. The plant expenditures required to produce Alcogas have been comparatively slight, but it will require considerable funds to perfect a system of retail distribution.

The theory upon which Industrial Alcohol acted in perfecting this new fuel was briefly this: There exists in the automobile industry a certain demand for quality cars. There are but two known practical sources of automobile fuel—oil and alcohol. The basis of Alcogas is of course alcohol and it produces a quality fuel more powerful and efficient than gasoline. This fuel it is believed will always be in demand at a differential measuring the difference between cost of producing gasoline and the alcohol fuel. It is broadly true that the 4 to 5 cents per gallon higher cost of Alcogas is fairly represented by its greater economy and freedom from carbon as compared with gasoline.

It has been generally accepted that as a result of the doubling of its common Industrial Alcohol would probably pay $8 per share dividends on its $24,000,000 common against $16 per share on its present $12,000,000 issue. This assumption it is understood is correct at least so far as 1920 is concerned. After that if Alcogas produces the profits which many believe are probable the return to common stockholders may considerably exceed 8%.

EDISON OF BOSTON.—The shares of the Edison Electric Illuminating Co. of Boston have furnished one of the sensations of the Boston market during the past week with a jump of more than 10 points in one day.

Indeed, as a 12% stock, earning its dividend with a fairly good margin to spare, Edison would not appear to be particularly high at its present price. In the ten years from 1909 to 1918, inclusive, the company earned an average of 14.85% for its stock every year, the worst year showing 12.67% and the best 16.06%. It had, therefore, exhibited all the stability which in the years before the war were characteristic of the well-managed public utility enterprises. Of late, operating expenses, have, of course, increased materially, but the company has been able to increase gross sufficiently to leave a good balance for the stock.

In the year ended June 30, 1919, gross earnings amounted to $11,435,708 as against $9,623,605 in the 1918 fiscal period. Expenses consumed over 55% of gross as compared with 50% in 1918, 47% in 1917 and an average of about 43% for the preceeding eight years. The balance available for the $22,528,000 of stock was equivalent to just about 14% on that issue, while the 1918 balance was equal to 14.37%.

The expense of doing business in 1919 was $1,445,00 greater than in the preceeding twelvemonth, but of this $682,000 was due to increased cost of coal, and $450,000 to wage advances, leaving only $324,000 as the normal increase in expenses. This was more than offset, however, by a 10% increase in charges made effective in December, 1918, and by another charge for a portion of the year of an amount equal to the difference between present and pre-war coal costs. This company has been fortunate in being able so far to counterbalance its greater operating costs by greater revenue.

A public utility company which is steadily growing is obliged to steadily increase its capitalization in order to finance extensions and improvements. Up to 1917 this financing was nearly all done by the sale of stock. Indeed the $22,528,000 of stock has been issued for cash at an average price of $180 per share. During the past three years, however, conditions have not been so favorable for stock issues, and the management has had recourse to note issues. There are at present outstanding $19,000,000 of notes all maturing between February and August, 1922. Should conditions warrant it within the next two years, an effort will probably be made to pay off these notes by the sale of new stock, which might entail valuable rights for the stockholders.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 830 November 7, 1919

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THE GENERAL MARKET.—The play of opposing forces in the market is now becoming more pronounced, and the bulls, instead of having everything their own way, are being forced, from time to time, to give heed to the activities of the bears. During most of this year the market has been pretty much a one-sided affair. From February to June prices advanced steadily with hardly a re-action worthy of the name. Then followed a series of shake-outs and rapid recoveries preceding the August decline, which wiped out a good portion of the advance. For the past two months prices have been again rising at an ever quickening pace.

Bad news, which ordinarily might be expected to exert considerable influence upon the market, appears to have had merely a transitory effect. The coal strike, after the first shock of realization that it was really to be called, has been disregarded. Undoubtedly the admirable attitude of the administration in dealing with it so far has given reason to the belief that it will be of comparatively short duration and that the day of the radical labor agitator is rapidly drawing to a close. The results of the election in Massachusetts too, where the line was distinctly drawn between the forces of law and order on the one hand, and those of violence and ignorance on the other, have done much to clarify the situation. Certainly the market has not appeared to be very apprehensive over the various manifestations of social unrest and its judgment, as is usually the case, now seems in a fair way to be vindicated.

High money rates, also, have failed to check the speculative activity to any great extent, although they now appear to be beginning to be felt. Several times the quotations for call money have reached 15% to 20% and it cannot be denied that the condition of the banks is causing more or less concern in some quarters. The Federal Reserve Board has, from time to time, deplored the wave of speculation which was sweeping the country, not only in securities but also in commodities of all sorts, and the advance in the rediscount rate by the Reserve Bank of New York has the avowed object of endeavoring to check this speculation. Since Government loans are now being reduced, it is considered necessary to make reduction in bank loans and deposits in order to insure an orderly return to normal credit conditions. How great has been the increase in the loans and deposits of the New York City banks this year we have previously pointed out. It is significant also, that last Saturday's statement of the Federal Reserve Bank showed loans to member banks in excess of the previous high record on July 11, or just before the peak of security prices last summer. In short, deflation seems to be the order of the day, and whether it can be accomplished without some unsettlement of security prices is considerable of a question.

In any such uneven market as that of 1919 it is, of course, possible to pick out some securities which, judging from their past records and future possibilities, have enjoyed advances in no way comparable with those of many others. Indeed, the big earnings of this year seem to have fallen largely to those concerns which make finished products and deal directly with the ultimate consumer. Companies that produce raw materials have, with a few notable exceptions, been more or less neglected. Many students of conditions, however, believe that if the prosperity discounted by other stocks is realized, it must ultimately be shared by these concerns, and that their securities should advance before the general upward movement definitely culminates. Certainly on any decided reaction in the general market between now and the end of the year, purchases of these issues would appear to entail comparatively little risk.

CUBA CANE SUGAR.—The new financing which Cuba Cane Sugar Corporation has arranged will remedy a deficiency which has existed since its organization in December, 1915. This has been a continuous lack of sufficient net working capital. The proceeds of the $25,000,000 7% debentures will be almost exclusively applied to working capital and unless some totally unforeseen property expansion of large dimensions develops in the next few years will remain as working capital for an indefinite period.

Roughly speaking, the proceeds of this bond sale will cancel all present floating debt and will give the company some $10,000,000 of new money. But even this $10,000,000 of new money will be revenue producing for at east 6 and probably 9 months out of the 12, because it will replace funds formerly borrowed to carry unsold or unshipped raw sugars. It is, therefore, broadly true that the actual net increase in fixed charges imposed by this new financing will be not $1,750,000 per annum, but a very small portion of this amount, possibly not even as much as 25%.

The new bonds represent a fundamentally sound principle in industrial financing in that they accord full recognition to the basic right of present preferred and common shareholders to share in the speculative possibilities and future earning power of the business. It would have been a comparatively simple proposition to have created a first mortgage bond issue carrying a heavy sinking fund charge. Instead the directors

have determined to offer to present preferred and common shareholders the right to subscribe to 7% debenture bonds which may be converted into common stock at 60. In other words, each $1,000 bond is to be convertible into 16⅔ shares of common. This conversion privilege obviously should prove a most acceptable substitute for a sinking fund. The $25,000,000 surplus profits that would otherwise be required to pay off these bonds through sinking fund operations up to maturity represent just so much money subtracted from the business.

Under the convertible plan this money will be reinvested in the business, compound on itself and by the time of the maturity of the bonds will represent not $25,000,000, or $50 per share of present common, but through accretion possibly as much as $60 or $70 per share on the present 500,000 shares of common.

Incidentally it is only proper to call attention to the point that when a board of directors containing the seasoned financial judgment of the directorate of Cuba Cane selects $60 per share as the conversion basis of the bonds, it means something more than the expression of empty optimism. Indeed it is a fair argument that the directors of Cuba Cane believe that thanks to this new financing Cuba Cane Sugar will be in such strong treasury position that it can realize a sustained earning power that will make the $60 conversion price in time appear entirely conservative and from the bondholders' viewpoint attractive.

There is one argument advanced in the Cuba Cane situation which it is only fair should be frankly met at this time. It has been asserted that with $25,000,000 additional bonds, Cuba Cane Sugar would be too heavily capitalized measured by the stereotyped standard which Wall Street employs, i. e., "capitalization per bag of sugar." It would not require any extended analysis to discover that this so-called "capitalization per bag" is not an accurate test at all and that as applied in a comparative sense between different companies it is even positively misleading. But, undoubtedly, it is a phrase which to many possesses a value it has no right to claim.

Without going too deeply into mathematics we may assert that on the basis of its present productive capacity and taking par for the new bonds, par for its 7% preferred and $42 as the market price of the present 500,000 shares of common, Cuba Cane would represent a capitalization of about $19 per bag. Assuming productive capacity unchanged and the bonds converted into 416,000 additional shares of common, worth marketwise $60 per share, the capital per bag would be about $21. This is a trifle higher than the customary $15 or $16 per bag taken as an arbitrary standard five or six years ago. But plenty of Cuban properties are today selling at about $25 per bag. In fact, it is a fair argument that as time elapses the steady annual increase in Cuba Cane's productive capacity should automatically lower the capital per bag as fast as standards of value return to the more normal levels prevailing before the war.

A few figures will prove that the drift of Cuba Cane's growth in output has been along sound lines. It is generally understood that the profits from sugar production are greater in the eastern than in the western end of the island. In its late crop year covered in the fiscal 12 months to September 30, Cuba Cane produced 1,145,021 bags, or 36% more sugar than in its fiscal year to September 30, 1916, its first 12 months of operation. And of this gain of 1,145,021 bags, 1,107,723 bags came through the expansion in the eastern end of the island. The details of this are shown below:—

	Eastern—Bags	Western—Bags	Total—Bags
Crop 1915–1916	557,867	2,616,301	3,174,168
1916–1917	877,755	2,383,866	3,261,621
1917–1918	1,175,399	2,437,926	3,613,325
1918–1919	1,665,569	2,653,620	4,319,189
	4,276,590	10,091,713	14,368,303

This tendency toward Eastern expansion will be continued during the 1920 crop season. In fact, the lands and railroads of one western plantation have already been converted into cash. The mill and machinery are being moved to the east and will be installed at Central Moron, increasing that mill by 150,000 bags to a total of 650,000 bags and making it one of the two or three largest sugar centrals in Cuba.

In considering the immediate outlook for Cuba Cane it will be appreciated that early crop sugars have sold from 6½ to 7¼ cents f. o. b. and are now selling at the latter price, against a fixed price for the 1919 crop of 5.55 cents f. o. b. There will, undoubtedly, be an increase in cost of production, but a very large portion of the increase in selling price should accrue to net profits.

It has taken three years for Cuba Cane to synchronize its cane fields and mills and to shake down into an operating unity the 17 individualized operating units which were combined late in 1915 into the present company. Co-operative effort was very apparent in the 700,000 bags, or 19% increase during the late crop year. Weather permitting, it should be equally in evidence during the coming producing season. It is hardly likely that another 19% increase in production can be recorded, but even a 10% gain would mean a crop of 4,700,000 bags. And if weather favors it may be even better than this.

NEW YORK CENTRAL.—From present indications, the New York Central will this year earn its dividends from its own operations, with a considerable margin to spare. Up to September, the 1919 net was running well in excess of that of last year, but September made a pretty poor showing. For that month,

net operating income amounted to only $5,169,291, as compared with $9,536,184 in 1918. The latter figure, however, was particularly large, due no doubt to the rate increases which had been granted a short time previously and to the tremendous volume of traffic handled during that month. The 1919 figure compares quite favorably with the September net of previous years.

For the nine months' period of the current fiscal period, the New York Central reports a net operating income of $35,871,901, as compared with $28,917,190 a year ago. Ordinarily, the first nine months produce about 72% of the New York Central's annual net profit. If this ratio holds this year, the final net should amount to about $49,600,000, which with other income and charges on the 1918 basis, would leave a balance equivalent to between 7% and 7½% on the practically $250,000,000 of capital stock outstanding. Last year net revenue was $48,300,000, and the percentage actually earned for the stock about 6.8%, while the federal compensation, assured during the duration of Government control is equal to approximately 9.8%. The 5% dividend rate would, therefore, appear to be pretty well secured.

As a matter of fact, the final earnings for the year are likely if anything to exceed the above estimate of 7% to 7½% for the stock. The decrease in September net is largely attributed to accounting adjustments, especially accrued wage increases which will not affect the earnings of the last three months. Moreover, the last quarter of the year is usually one of the best in the twelvemonth, particularly in years of good crops.

The indicated New York Central earnings for 1919 fell about $6,000,000 short of the Government guarantee, but the fact that they show such a good margin over dividend requirements, when so many first-class roads are not earning their fixed charges from their own operations, not to mention dividends, should be the cause of considerable satisfaction to shareholders.

GOODRICH.—Goodrich is another of the country's important industrials which has embraced the present opportunity and which through issuance of stock has rid itself of bonded or note debt. The $15,000,000 6% notes coming due on November 12 will be paid off through the proceeds of the sale of an equal amount of preferred. This preferred was offered to all shareholders and either through this offer or through underwriting has been fully subscribed.

As a result of this step, the Goodrich Company has today a capital of about $39,500,000 7% preferred and $60,000,000 common, a total capitalization of approximately $100,000,000.

With this capital Goodrich is handling in the fiscal year ending December 31 next a gross business of more than $140,000,000. Back in 1916, the company shipped out $70,990,782 of products and had $87,300,000 capitalization. In the 1918 and 1919 fiscal years Goodrich has for the first time had more than $1 of capital for each $1 of gross. And this year the ratio is very nearly 1½ to 1.

There is a fair chance that Goodrich's net profits in its December 31, 1919, fiscal year will reach a new high total for the common. The exact percentage earned on the common in 1918 after taxes has never been officially stated. Before taxes the balance was equal to about $23 per share. For all of 1919 the company should somewhat exceed this showing. It has been rumored that earnings before taxes might reach 30%. This is, undoubtedly, too high. A much more probable statement is that in the last few months earnings have been at this annual rate. But for the full fiscal 12 months a balance before taxes of $25 per share on the $60,000,000 common would be satisfactory.

A policy of unnecessary secrecy and lack of asset value have combined to prevent the spectacular market moves in Goodrich common which have featured other rubber and tire common issues. At the end of 1918 the asset value of Goodrich common was apparently $55 per share. But it is pretty safe to assume it will be $70 by December 31 of this year.

Moreover, the company has paid small dividends of but $4 per share for three years and during the past five fiscal years ending December 31 next will have put over $60 of undivided profits back behind the common stock.

The 1920 outlook is favorable, while the financial position is easier than for years. It would not impose any strain on earnings or working capital if common stockholders in 1920 received a more liberal dividend.

STUDEBAKER CORPORATION.—The decision of Studebaker Corporation directors to issue 50% in additional common stock, to be offered to shareholders at $105 per share, on its face looks like a sharp reversal in financial policy and a distinct reappraisement of the company's business outlook. And in a general way this is true. For it was less than a year ago or in December, 1918, that Studebaker directors decided to issue $15,000,000 7% serial notes maturing in instalments from 1921 to 1929. That financing was designed to clean up a floating debt of about $9,000,000 and provide funds for the construction of a big new plant at South Bend, Ind., to have a capacity of 50,000 to 60,000 cars per annum.

Had Studebaker directors waited even three months they would, undoubtedly, not have issued these notes for as events proved the company could have gotten along very comfortably without any financing.

The issuance of 50% additional common will provide $15,750,000 additional cash, or more than enough to call in and cancel these notes at their callable price. In fact, the company has naturally already bought in several millions of the notes.

The new financing will have Studebaker entirely free from any bonded or note debt and with about $10,600,000 7% cumulative preferred and $45,000,000 common on which the dividend rate will hereafter be 7% instead of the 4% which prevailed in 1918 and up to date in 1919.

So far as the cost of money is concerned there is, therefore, no difference to the company as between the 7% notes and the 7% common stock.

Studebaker has, however, placed itself in exceedingly strong financial position. Its present working capital is substantially above $30,000,000, a large part of which is in cash. Furthermore, the company is so well rounded out, both in plant and equipment and selling organization, that it is difficult to see how it is going to need to issue additional capital for years to come.

Getting rid of these notes is incontestably a strong argument for Studebaker common. The serial maturity of the notes meant in effect an annual sinking fund of $1,500,000, a sum equal to 5% on the present common. Furthermore, the callable price of the notes increases each year, so that if they were to be retired at any time before maturity the present would be the most economical period in which to do it.

Studebaker earnings are very large and the 1920 outlook, with the South Bend plant in quantity production by March, is very promising. It has been publicly stated that the company might be expected to earn as much as 30% on its common this year—the fiscal period to December 31 next. Recent earnings have been at a much higher rate, even in excess of 40% on the common after all prior deductions, including taxes. But recent earnings reflect the height of the selling season. The final quarter can hardly be expected to continue this remarkable pace.

ATLANTIC GULF & WEST INDIES.—Atlantic, Gulf & West Indies will have in Mexico, when the work now under way is completed, a cash investment of $6,000,000 of which $5,000,000 will be represented by first mortgage 6% bonds carrying a 10% annual sinking fund, and $1,000,000 by second mortgage 6% bonds payable out of the first earnings of the property.

On its cash investment, therefore, Gulf will receive in 1920 a return of $360,000 in cash plus a minimum sinking fund of $500,000, a total of $860,000

Atlantic Gulf is planning to build a 30,000 barrel topping plant which should be completed and in operation by April next year.

In a broad way it is correct to state that the 1920 oil production of Atlantic Gulf will be limited only by its supply of tankers. The company has production and pipe lines sufficient to insure the handling of 15,000,000 to 20,000,000 barrels of oil next year. But it is not likely to have tankers enough to handle more than 50% of this maximum quantity.

In respect to tankers Atlantic Gulf is in precisely the same situation as other Mexican properties. In fact there exists at present a world-wide shortage of tankers which only time is likely to remedy.

VENTURA CONSOLIDATED OIL FIELDS.—The shares of this company have been noticeably strong during recent weeks, a thing which is not perhaps at all extraordinary since any oil stock can be advanced in price. The Ventura, however, has been making a steady record of progress during the last three years, as may be seen from the following table:—

	Crude Oil Produced	Net after Interest and Taxes	Per Share
1918	889,260 barrels	$1,085,158	$2.17
1917	644,249 "	686,052	1.38
1916	557,989 "	510,884	1.03

The net earnings given above are before reserves for depreciation and depletion, which in 1918 amounted to $600,574, as compared with $354,721 in 1917 and $198,247 in 1916. The share profits are figured on 500,000 shares. As of December 31, 1918, there were outstanding 495,887 shares of stock, par $5, and also $1,000,000 of 7% bonds, due in 1922 and convertible into stock at $10. It would seem likely that some of the bonds have been exchanged for stock since that time.

During the current year, earnings have made an even better showing. For the first six months to June 30, net after interest, but before any allowance for taxes or depreciation, was $893,659, which, after allowing for taxes, would probably be at the annual rate of about $1,800,000, or the equivalent of $3.60 per share for the 500,000 shares. Assuming all the bonds converted into stock it would be at the annual rate of $3 per share.

Production of crude oil, too, for the first half of 1919 amounted to 550,174 barrels, or at the rate of 1,100,000 barrels a year. This would be a daily output of only about 3,000 barrels, while at present wells are said to be producing better than 3,500 barrels with the possibility of increasing to 5,000 barrels before very long. The company would seem, therefore, to be in a position to considerably expand its earning power.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 831 November 14, 1919

THE GENERAL MARKET.—A few days ago the industrial stocks stood at the highest point ever reached. Since then one of the worst breaks seen in recent years—accompanied by the highest call money rates since the 1907 panic—has brought the industrial averages down over 12 points, and caused sensational declines in some of the high-priced specialties running from 20 to over 100 points.

The action of the market is a striking commentary on the vital importance of banking conditions. For, however much it may be neglected and glossed over, bank credit is the fundamental basis for any bull market and sooner or later a strained credit situation must make its influence felt. In recent weeks we have had ample warning of impending disaster in tremendously expanded loans and high money rates, and yet the action of the Federal Reserve Board in increasing the rediscount rates, and in attempting to curb the furious wave of speculation that has been sweeping the country, appears to have caught most of the trading public unawares. Apparently the purpose is well in the way to fulfilment—speculation has been checked and loans are being materially reduced—but it is still more or less open to question whether the Board, in letting loose a tidal wave of liquidation, has not sought a remedy which in its way is almost as dangerous as the disease it seeks to cure.

Coinciding with the critical situation in the money market is the renewed weakness in foreign exchange which has carried rates on all the European countries to new low levels. A great deal has been heard for months about the necessity of establishing foreign credits in this country to stabilize exchange. The figures mentioned run up into the billions, but so far nothing has been done, and it may be that the revelation of our strained credit facilities will operate against the immediate consummation of any plans with this end in view. Certainly there seems to have been considerably more agitation regarding the stabilization of exchange rates on this side of the water than in Europe. There adverse rates are in many influential quarters regarded as offering a favorable opportunity for the reconstruction of home industries and the development of foreign markets. Accordingly, it is not surprising that some of our leading financiers have recently expressed the view that the surest and most logical way in which to raise the value of the currencies of other nations is to purchase more of their products and sell them less of ours. Any such solution as this, if solution it be, could mean only a downward revision in the anticipated earnings of those corporations which had counted on doing a big export business as soon as the establishment of credits on a large scale should permit the influx of foreign orders, and a gradual slowing up of domestic business as imported goods become a greater factor in the home markets.

It may seem rather paradoxical that whereas, for some time past, the market gave little heed to unfavorable factors, it has now paid no especial attention to the only decidedly favorable development of the last week. We refer to the calling-off of the coal strike in compliance with the order of the court. The issuance of a mandate by the United States Court declaring a strike illegal and ordering its immediate revocation is entirely without precedent and offers convincing and gratifying evidence of the Government's intention to protect itself and the public against unwarranted aggression by a minority of the population. It is also pleasing to note the activities of the authorities in suppressing radical agitators and propagandists. In fact, the labor and industrial situation has cleared up considerably of late and it seems safe to say that the future will not see such serious disturbances as the past few months have witnessed.

Unquestionably, the technical position of the market has been much improved by last week's declines. Many of the stocks that have had the most spectacular rise have lost a good portion of their advance, weak holders of securities have been obliged to liquidate and brokers' loans must have been materially reduced. While it is likely that confidence has been shaken sufficiently to prevent the resumption of the upward movement again this year, nevertheless, in view of the extent of the liquidation, a rally of greater or less proportions would now seem to be quite possible, to be followed by a marked quieting-down in speculative activity until we are able to more calmly appraise what the future may hold in store.

THE EQUIPMENT SITUATION.—The equipment companies of the United States as a group have now entered that period of slack business which was clearly foreseen last summer. The locomotive companies have worked out of forward orders a little faster than the car building companies, but the equipment part producers are hardly better off in respect to unfilled business that the locomotive concerns themselves.

American Locomotive and Baldwin Locomotive, for example, at present have between them less than $15,000,000 of unfinished business. They have an annual capacity of well over $200,000,000 of gross sales. The basis of operations of each of these two companies has been slowly contracting since the last of August and at the moment they are both running at less than 15% of capacity.

American Car & Foundry carried over into its new fiscal year beginning May 1 last a very large total of incompleted car orders. This business was officially placed at "over $100,000,000," an amount so great as to insure practically $10,000,000 net profits in its April 30, 1920, fiscal year, even if no additional business were to be booked. But Car Foundry has been greatly helped by an unusually large volume of repair work. It is a singular fact that American Car & Foundry and other car building companies have a fairly steady amount of repair work. With the locomotive companies repair work is not important and not dependable. But even American Car & Foundry has been curtailing operations and will continue to do so until the next buying era sets in.

Concerns like American Steel Foundries, New York Air Brake and Westinghouse Air Brake have nearly exhausted the orders on their books and in some cases have been manufacturing standard equipment for stock. Railway Steel Spring is probably doing better than any of the other part producers. It is running at something better than 50% of capacity and has had all through 1919 a satisfactory volume of export business.

The much discussed advent of large foreign equipment orders has yet to make its appearance. If the optimism of certain equipment leaders respecting the possible proportions of these export orders is a little less rampant it may mean nothing more than the natural lessening of enthusiasm which comes with the deferring of expectations.

Meanwhile rumors continue to make their way into equipment circles that Germany may control a considerable amount of this business which had been counted upon as assured to the equipment producers of the United States.

The European chaos is still so profound that no American banker or manufacturer can venture anything more than a personal guess as to how soon—if at all—European equipment buying in volume is coming to this country.

Meantime, Congress has shown a spasmodic inclination to tackle the domestic railroad problem. If the railroads are returned to private operations on January 1 next and the present basis of compensation is continued for six months, or until some permanent status for the roads can be legislated, the question promptly arises as to how soon this permanent legislation may be expected to eventuate. And with this arises the even more specific question as to whether American railroads will buy freely after January 1 or wait until permanent legislation has defined their position. If the latter course were to be followed it might be March or even April next before the present hiatus in equipment orders were ended.

With all the world in need of equipment and with American builders getting daily more hungry for new business it is certainly an extraordinary situation which holds back the flood of orders which would normally be flowing to market. The power of artificial conditions to dam up the natural tendencies of supply and demand has had few parallels to the existing equipment depression.

UNION PACIFIC.—During 1918 the Union Pacific made a record of earnings that was equalled by very few roads and surpassed by none. Not only did it earn from actual operations more than the 10% common stock dividend requirement, but the balance remaining for that issue was larger than in any previous year except 1910. Had the road been operated for its own account during last year the percentage for the common would have been 18.64%, as compared with a Government guarantee equivalent to 12.87%.

A number of railroads which made an excellent showing in 1918 have fallen down badly this year. The Union Pacific, however, does not fall in that category. Its 1919 earnings have so far held pretty close to records of the preceding twelvemonth. For the nine months up to September 30, the Union Pacific reports a net operating income of $35,102,845, as compared with $36,890,682 in the same period of 1918. On this basis it would seem safe to figure as a final net for the year which, after all deductions, would leave a balance for the $222,291,600 of common equivalent to about 17%. While not as good as its immediate predecessor, the 1919 fiscal period still bids fair to rank among the two or three best years the road has ever had.

The Union Pacific, therefore, would seem to be in excellent condition to face the return of the railroads to private operation. Even if they were handed back on the present basis, which would undoubtedly mean receivership for a great many companies, this road would apparently be in no danger of having to even consider a reduction in its common stock dividend. And if provisions are made so as to permit the rank and file of the railroads to earn a fair return, the Union Pacific ought to be able to do even better. The only thing that might work out more or less to the disadvantage of the Union Pacific is a consolidation with other much weaker companies into some big regional or competitive system.

The Union Pacific, too, is vitally interested in the fortunes of other roads, through its ownership of their securities. According to the balance sheet of December 31 last, this company held in its treasury $119,000,000 of bonds of other railroads, and nearly $71,000,000 of stocks. Chief among the stocks owned are Baltimore & Ohio preferred and common, Chicago & Alton preferred, Chicago & Northwestern, Illinois Central and New York Central.

ILLINOIS CENTRAL.—The Illinois Central is one of those roads which in 1918 showed its dividend earned from actual operations, as well as secured by the Government guarantee, but which is not likely to show anything earned for its stock this year, and may have difficulty in covering fixed charges.

The Federal compensation amounts to $16,282,373 annually, and on the basis of the 1918 other income

and deductions there remained a balance equal to about 10.5% on the company's $109,284,392 of stock. Earnings from actual operations too were sufficient to cover the 7% dividend requirements, being equal to approximately 7.5% on the stock. With income from investments the same as last year, it may be roughly figured that the Illinois Central needs a net operating of about $12,500,000 to cover its charges and current dividend rate.

For the first nine months of the 1919 fiscal period, the company reports a net revenue of only $3,739,167, as compared with $11,290,346 in the same time last year. Ordinarily the nine months produce about 72% of the year's net. On this basis the 1919 net income would amount to only $5,173,000, which with the 1918 other income and deductions would leave about $800,000 for the stock, or less than $1 per share.

As a matter of fact, there may be some doubt as to whether or not this year's other income will be as large as last year. This item in 1918 came to $7,508,053, as against $4,317,207 in 1917. The increase of $3,190,846 was largely due to an interest payment on the Louisville, New Orleans and Texas Railway second mortgage income bonds. In the past, payments on those bonds have been very irregular, and if they are materially smaller this year, the Illinois Central will very possibly be unable to show its fixed charges fully earned from actual operations.

AMERICAN TELEPHONE & TELEGRAPH.—The betterment in earnings of the Bell Telephone system, which started in July, has continued at a satisfactory pace. During the past three months the undivided profits of the subsidiary companies have been running at the rate of between $18,000,000 and $20,000,000 per annum. This is an excellent showing and at least justifies the statement that including its equity in the undivided profits of subsidiaries the parent company is earning better than 11% on its $441,947,338 capital stock.

There seems to be a somewhat general impression in financial circles that the recent sale of $50,000,000 6% 3-year notes was necessary in order to pay off floating debt, which had accumulated during the period of Government control. This is emphatically not the case. For 10 years the Bell system has adhered with great persistence to the policy of anticipating its financial requirements. In other words, the company has gone on the principle of raising its money through sale of securities before spending it.

It is obvious that in any public service enterprise of the national scope of the American Telephone system, the outlay for additional property is nearly continuous. What the company has really done has been to keep itself consistently strong in cash.

The $50,000,000 secured through the September financing was not needed to pay off bank loans. It anticipated financial requirements for a good part and possibly all of 1920. In fact, the company's present cash position is such that it has $25,000,000 to $30,000,000 in bank balances and is loaning over $30,000,000 in the form of short time loans.

One of the features of the Telephone situation for nearly a year and particularly in recent months has been the considerable number of attacks made upon it. Some of these attacks have been so mild as to convey nothing more definite than the insinuation that the company's ability to maintain existing dividends might be in question. Other attacks have been part of the phenomena of a period of widespread general financing and have undoubtedly proceeded from a desire to tempt the replacing of Telephone bonds or stock with some new security. But whatever the motives may have been, the practical effect upon the market position of Telephone shares must have been considerable. Most of these attacks the company's officials could not dignify by individual reply. In the cases where the company has replied, its answers as made through Chairman Vail have been very much to the point and have expressed complete confidence in the ability of this great business to ride out the present period of high cost operation and still maintain its old time standard of maintenance and depreciation, as well as the existing return on its stocks.

AMERICAN LINSEED.—American Linseed, in its fiscal year to September 30 last, showed the first really substantial profits ever recorded for its $16,750,000 common stock. The balance for the junior stock of $16.02 per share compares with previous years as follows:

Sept. 30	1919	1918	1917	1916
Per cent. on common.....	16.02%	5.77%	5.82%	1.82%

American Linseed, up to 1917, had never produced anything in the way of earning power that called for particular enthusiasm. In fact, from 1901 to 1916 inclusive, the 7% dividend on the $16,750,000 non-cumulative preferred was not paid and it has only been in the past two fiscal years that the full 7% has been distributed.

American Linseed, with its September 30, 1919 annual statement, has for the first time issued a consolidated income account and balance sheet.

The income account presents features which appear anomalous. For instance, gross income is stated at $11,025,776. This compares with $4,385,287 in the 1918 fiscal year. The increase is, doubtless, due to inclusion of the Nucoa Butter Co. receipts. But even $11,025,776 can hardly measure the total gross sales of a company which carries its property account at $34,049,000 and which shows an inventory item of $12,292,523. It is hardly conceivable that the company is carrying more than 12 months' inventory on its books. It is probable that if the actual figures of gross sales were disclosed they would show an overturn of better than $25,000,000.

The consolidated balance sheet shows net quick assets of $9,621,064, an increase of $1,128,412, compared with the parent company balance sheet of September 30, 1918. This working capital is equal to $57 per share of preferred.

The inauguration of dividends on the common at the rate of $3 per share was a natural disappointment to shareholders, but directors, in view of the past mediocre record, can hardly be criticised for moving slowly. There is believed to be a very good chance, if 1920 earnings are favorable, that common shareholders will receive something in the way of extras.

On the other hand, the company has naturally worked off its low-priced inventory, the possession of which formed the basis for the very large profits of the 1919 fiscal year. That these profits are only partially disclosed in the abbreviated income account is a possibility, especially as it is understood that earning figures in the consolidated income account do not include operations of partially owned subsidiaries.

MIDVALE STEEL & ORDNANCE.—In its September quarter, Midvale Steel shows a decided improvement in net profits, this period being much the best so far in the 1919 year, and there would now seem to be no question that the current $4 stock dividend will be safely earned.

The record of the first three quarters has been as follows:

	Net Profits	Per Share
Quarter ended March 31, 1919	$2,750,197	$1.37
Quarter ended June 30, 1919	946,267	.47
Quarter ended September 30, 1919	3,408,359	1.70
Total nine months	$7,104,823	$3.55

The above earnings are after interest, federal taxes and allowance for depreciation, which for the entire period amounted to $4,224,604. The nine months' net was at the annual rate of $4.72 a share for the 2,000,000 shares of stock. The most striking feature of this record, however, is the increase in profits during the third quarter, from $946,267 to $3,408,359. Earnings of the September period were at the annual rate of $6.80 a share for the stock. If it had not been for the steel strike it might reasonably be expected that the current quarter would much exceed its predecessors. As it is the strike at the Midvale plants was not nearly so serious as at the plants of some of this company's biggest competitors, so that final share profits of from $5 to $6 for the 1919 year would appear quite reasonable.

In its four years of corporate existence the Midvale Steel & Ordnance Company has earned slightly over $37 per share in excess of dividend distributions. In actual figures this amounts to about $74,000,000. From December 31, 1916, to December 31, 1918, the company's net quick assets increased nearly $32,000,000 and its property valuation about $29,000,000, or a total of $61,000,000. At the close of last year net quick assets were equivalent to $16.21 per share for the Midvale Steel stock, after allowing par for all bonds and subsidiary stock in the hands of the public. At the same time the net asset value of this stock amounted to $79 per share.

From nearly every point of view, Midvale would appear to have justified the hopes of its organizers. And in comparison with other steel companies, considering earnings and financial condition, the market does not seem to have placed an extravagant valuation on its shares.

AJAX RUBBER.—In its three and a half years of existence the Ajax Rubber Company has made a splendid record of progress and at the present time is making the best earnings of its career.

Organized in December, 1915, to succeed the Ajax Grieb Rubber Co., which had been in business since 1905, the company in 1916 acquired the Racine Rubber Co. It now owns two plants, one at Trenton, N. J., and the other in Wisconsin, and is planning a third at Jackson, Michigan. It started out with 142,000 shares of stock, par $50 and no funded debt. In its first year, 1916, it earned a net of $1,173,327, or the equivalent of $8.26 per share. Dividends at the annual rate of $5 a share were inaugurated in March, 1916, and increased to $6 in June, 1917. This latter rate is now in effect.

In 1917 net after tax deductions amounted to $1,460,293, or $10.28 per share, and in 1918 to $1,215,368, or $8.56 per share. It should be noted, however, that last year tax deductions were $1,700,000, as compared with only $495,000 in 1917, so that net before taxes was really nearly $1,000,000 larger. For the first half of the current fiscal period the company reports net profits, before any allowance for taxes, of $1,886,730. This would be at the annual rate of $3,773,460, as against slightly less than $3,000,000 for the entire 1918 year, and would be equivalent to $18.86 a share on the 200,000 shares now outstanding. It is impossible to determine how much will have to be allowed for taxes this year. It would seem, however, as though last year's allowance of nearly 60% of net was excessive and that the 1919 taxes should not consume anywhere near as much as this.

The company's balance sheet for June 30, 1919, showed a net working capital of $5,932,454, as compared with $4,084,815, at the close of the 1918 year. The net asset value of the stock was $54 per share, as against $44 in 1918 and $40 at the end of 1916.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 833 November 28, 1919

THE GENERAL MARKET.—While such severe breaks as that through which the market has recently passed are bound to be witnessed from time to time, there are to our mind three reasons, any one of which would make it most improbable that, as yet, we have reached the ultimate crest of the hill, and had started in on the long down grade. First is the fact that, in spite of strenuous efforts since the war ended a year ago, production throughout the world has by no means caught up to consumption. There is everywhere still a marked shortage of goods and of most raw commodities. Second is the enormous amount of credit instruments of one kind and another issued during the war that are still outstanding. Third is an influence to which, perhaps, enough importance has not been fully ascribed, and that is high taxes. These must be passed all the way down the line and so long as they continue at anything like the present abnormal rate will be a very potent factor in the continuance of high prices.

The most serious problem confronting this country today is the depression in foreign exchange. The effect is already beginning to be seen in a falling off of exports and an increase in imports, resulting in a very decided shrinkage in the foreign trade balance on which so many have gloated for months past. This, however, is a tendency which we must be prepared to face for a long time to come.

During the war, Europe's purchases from us were made largely out of capital funds. While the war lasted these purchases were imperative for the success of their arms. Today, although they are no doubt sadly in need of many of our goods, there is not the same imperative necessity, and we cannot expect that they will continue to squander their capital to make these purchases. On the contrary, they will be made only as they can afford to make them out of income arising from business and trade.

If we expect to sell, therefore, we must be prepared to buy. The commercial life of a nation, as of an individual, depends upon trade. We cannot prosper unless our customers are prosperous. Those who are fearful of the flooding of American markets with European goods must remember that Europe itself is still further behind than we are in the supply of goods and will need a large proportion of their own output. The manufacture of goods to be sold to us involves, also, a purchase of our raw materials.

It must also be remembered that the payment of interest, let alone the principal of the enormous sums in which we are now the world's creditor, can be worked out only through goods and service.

Briefly, then, heavy American imports are an indication of a reviving Europe and a prosperous Europe is the best guarantee of continued American prosperity. In this connection, it would be well to point out that there is an unusual opportunity in the purchase of internal loans of the stronger allied governments. These net a good rate of interest at current prices, and a recovery in the rate of exchange would bring a handsome profit.

One cannot visit the various sections of this country without being much impressed with the unmistakable evidence of great increase in national and individual wealth. The most obvious sign is, of course, the tremendous number of automobiles. While the primary object in the purchase of most of these may have been pleasure, they have resulted in opening up the country wonderfully, and providing new channels of intercourse. They have, undoubtedly, greatly stimulated the rapidity of industrial circulation. The introduction of labor-saving machinery and devices of all kinds is everywhere apparent. The far-western states, formerly classed as desert, are yielding rapidly to irrigation with remarkable results in the cultivation of cotton, fruit and vegetables. One feels everywhere a quickened pulse.

It is most difficult in the face of this evidence of general prosperity to believe that we are on the brink of any serious depression. The only "fly in the ointment" is the country-wide tendency to shorten hours and to spend instead of produce.

Before the end of the year it is to be hoped that some constructive plan will be devised for the return of the railroads to their owners. In this event, it is quite possible that railroad purchases of materials and equipment so long delayed will at last be in evidence.

The recent sharp break has undoubtedly improved the technical position of the stock market in eliminating the worst excesses of inflation. It is very doubtful, however, whether the banking position has been sufficiently improved to permit any general resumption of activity. Despite the sharpness of the recession, a comparison of prices with those of a year ago would quickly bring out the fact that, generally speaking, industrial stocks are by no means at bargain prices, though it must also be admitted that a continuance of earnings that are being recorded by many corporations would seem to warrant higher valuations.

We believe that, for the time being, the best interests would be served by a period of several weeks,

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perhaps months, of marking time until the banking situation has been improved and the outlook is a little clearer.

PUNTA ALEGRE SUGAR.—Grinding began at the Florida plantation on the 25th and at the Punta San Juan property on the 26th, so that the sugar and income producing season of this company may now be considered fairly underway. This is decidedly the earliest start the company has ever made. The addition to the mill at Punta San Juan, which will double the capacity of that plant, is progressing according to schedule and should be in commission before the first of March.

At the beginning of the crop season, therefore, everything points to the fulfilment of the prediction of at least 700,000 bags this year, as compared with 605,000 last year.

In 1919, Punta Alegre reported an operating profit of $3,017,000 on 605,000 bags, just under $5 per bag. This was on 5½-cent sugar. Of the coming year's crop the company has as yet sold but a small proportion and is in a position to take advantage of the high prices on much the greater part of its production. Sugar is now selling f. o. b. Cuba for 8 cents or better.

Of course, with a higher price for sugar, a somewhat higher cost must be expected—the price of colono cane for one item advancing automatically with the price of sugar. The company should, however, have no difficulty in saving out from the higher price a good proportion for increased profit.

This year the profit will be figured on a much larger number of shares; on the other hand, with the bonds converted, the interest on these will be eliminated and the interest on such money as the company borrows during the crop season should also be materially reduced.

Taken altogether, it would seem very reasonable to suppose that even on the increased number of shares the company will repeat its earnings of $20 per share secured during the past year and may even considerably exceed this total.

UNITED FRUIT COMPANY.—United Fruit shares have been consistently strong in the New York market in recent weeks. And accompanying this strength there has been more than an ordinary crop of rumors afloat concerning the good things which it is alleged are in store for the owners of United Fruit's $51,000,000 capital stock.

It has been perfectly obvious for many months that sooner or later United Fruit would be obliged to divide a portion of its large surplus with shareholders. Profit and loss surplus at present is not far from $90 per share. For the two years ended September 30 last United Fruit has earned over $100 per share before taxes. It requires no particular gift of reasoning to determine that the company cannot continue indefinitely to pile up profits at the pace of the last few years without effecting some division with stockholders greater than the present $10 cash dividend.

The difficulty has been to find just the form of distribution that would not penalize stockholders too heavily in the way of taxes.

United Fruit has ordered approximately 45,000 tons of additional tonnage to be built in the English yards which have constructed its present splendid fleet. This means that in less than another two years the company should own under British or American registry a total of 230,000 tons of high class boats, specially equipped for handling fruit and sugar.

The 1920 outlook for United Fruit in sugar is fully as brilliant as for any Cuban producer. The 1919 earnings were not any too satisfactory, but Fruit with the advantage of 7½ cent sugar in 1920 ought to pile up the largest sugar profits in its history.

It has been rumored in New York that United Fruit had oil prospects in its tropical lands. This rumor has been totally lacking in official verification. It is of course realized that American capital has been most diligent in searching for oil in Central American republics and in Colombia and Venezuela. Fruit has no lands in the latter nation, but it does own 82,500 acres in Columbia, 240,000 in Costa Rico and over 630,000 acres in Guatemala, Honduras, Nicaragua and Panama. While it is by no means inconceivable that oil may be sometime discovered in some portion of this vast acreage, it is only fair to state that up to date there is no positive evidence to support an oil hypothesis. Columbia is regarded by geologists as the coming oil country of the western world. But United Fruit's lands in Columbia were acquired wholly for fruit production. Columbian oil as so far discovered has been many miles in the interior.

The broad statement may be made that United Fruit needs no oil label to find adequate explanation for the strength in the shares. Its triumvirate of earning power, fruit, sugar and ships, give it a unique position. Furthermore, some recent conservative figures have shown that the actual asset value of the stock is close to $300 per share.

NATIONAL ANILINE.—National Aniline, the country's largest dye manufacturer, has felt in 1919 the beneficial effect of widespread prosperity in the textile industry.

The 1919 fiscal year, beginning January 1, started slowly and the March quarter's results were rather mediocre. But sales have been on an expanding scale for the past six months and for a time during the height of its selling season the company was doing a business at the rate of $1,000,000 gross per week.

The company's first annual statement, for the fiscal year to December 31 last, did not fully portray the full normal earning power of the company. The figures presented to shareholders disclosed net profits of $6,312,385 before Federal taxes and $4,220,848 after allowing $2,091,537 for "taxes and investment losses." This $4,220,848 was equivalent to $6.50 per share on the 395,990 shares of common of no par after providing 7% dividends on $23,524,700 preferred.

National has no bonds, notes or floating debt and on June 30 last is understood to have had net quick assets of better than $21,000,000, a sum equal to more than $90 per share on the preferred.

The reason that 1918 did not reflect the full earning power of this corporation is that in addition to the heavy tax reserve the relatively large sum of nearly $6,700,000 was charged out last year for depreciation. In fact this deduction amounted to 35% of the book value of plant before depreciation. The depreciation and obsolescence charge has written plant values down to $10,064,278, a figure which it is believed to thoroughly conservative.

On the other hand National Aniline was well justified in treating depreciation with great liberality. The dye industry was created as a war emergency and in a comparatively short time. It was a hazardous venture. It was pioneer work in a field in which American enterprise had long been the underdog. Extraordinary measures were taken to secure production. Cost was a secondary consideration. There was no attempt made to conceal the fact that much money went into non-productive experiments. Some plants proved inefficient. It was a case of discarding quickly and building something newer and more effective. This excess cost had to be charged off in the drastic way if the company's balance sheet figures were to be kept safe and sane.

The year 1919 has seen a continuation of this effort to make the plant and equipment system fully up to date. But the sums to be charged to depreciation and obsolesence will not bulk so great as in 1918.

National Aniline is not only taking care of its American trade but has an important and steadily expanding export business. Its products are going to South America, China, Japan and Australia.

The company is thoroughly financed and should easily provide for physical expansion from surplus, undivided profits.

Some recent figures have proved that in certain standard colors used as a test its costs of production are at least as low as any costs Germany can show.

The company has developed 200 to 250 different colors and has commercially perfected something less than this number.

There is no gainsaying the fact that if it is to live and prosper the American dye industry as a whole must have protection—either in tariff or its equivalent. This is recognized in Washington and there has been political division on this subject. Sooner or later Congress is expected to extend this protection to the entire chemical industry of the United States.

National Aniline obviously has not fully emerged from its formative period. It is earning a common dividend and is steadily putting values behind the junior stock. But it is probable that common dividend initiation will have to wait until 1921.

THE DECLINE IN COPPER STOCKS.—During one of the depressions through which it seems necessary for this country to pass from time to time, when everything was very much in the doldrums and there seemed to be no demand for anything, somebody facetiously made the remark that, apparently, steel was going out of style. Apparently, about the same situation exists in copper today.

Against the reports of the heavy accumulation of surplus in the hands of the producers must be balanced two facts:—first, that this accumulation in first hand undoubtedly represents practically all the surplus copper there is. The actual users of the metal are by no means carrying their usual supply. Secondly, and even more important, is the undoubted fact that Europe is bare of copper and in really great need of it, only under present conditions, with which all are familiar—they cannot afford to buy it.

There s no sane reason to doubt that once normal conditions in these two respects are restored, the accumulated surplus will be absorbed and there will be a demand for all that this country can produce.

Since the middle of the summer when the copper metal was quoted at around 23 to 24 cents a pound, the shares of the leading copper producing companies have been steadily dropping in price. The metal is now quoted at about 18¼ cents. Although production has been radically cut down during almost all of 1919, there is still said to be a tremendous surplus of copper on hand. These conditions, coupled with a cost of production which is still relatively high, make for an unsatisfactory situation.

It is, therefore, not unnatural that the copper shares should be weak. They have, however, cancelled practically all of the advance of this year and are now selling not very much above the low prices of last February, when the metal sold below 15 cents, and in many cases are only a few points above the low levels of 1914, when as a result of the outbreak of the war, the metal sold at about 11 cents a pound and production was drastically curtailed. It is, of course, possible that they have not as yet reached their low points on the present movement. But at the same time they are approaching a level that would appear to have discounted very nearly the worst that can reasonably be expected to happen.

The following table, comparing current prices with the lows of last winter and of 1914, for some of the leading copper stocks, together with the high prices of this year and of 1916 shows the extent of the decline which these stocks have suffered, and indicates the possibilities for profit with the return of satisfactory conditions in the copper metal market.

Stock	1919 High and Low to date		1916 High Price	1914 Low Price	Current Market
American Smelting	89¾	62⅛	123	50¼	62
Anaconda	77⅞	56½	105	48¾†	58
Calumet & Arizona	86¾	56¾	101	53	62
Chino	50⅞	32½	74	31½	36
Copper Range	62	39	88	29	41
Granby	80	61	120	60	55
Greene-Cananea	47½	38⅞	56	21¼	36
Inspiration	67⅞	42½	74	14¼	51
Isle Royale	40¾	24	43	16	30
Kennecott	43	29⅛	64	25*	29
Miami	32¾	21¾	49	16½	23
Mohawk	83	49⅛	108	39	60
Nevada	21⅞	15½	34	10	15
Old Dominion	52½	30½	82	44	34
Ray	27½	19	37	15	20
St. Mary's Land	75	40	110	28	52
Utah Copper	97½	65⅛	130	45½	75

*1915 low price. Stock not issued in 1914.
†Amalgamated quotation.

THE SILVER STOCKS.—During 1918, the price of silver averaged approximately 96 cents an ounce for the year. It has recently sold at nearly 40 cents above this level, and all indications point to a continued high price for the white metal for some years to come, even if the quotations do not advance materially above those now prevailing.

There are, unfortunately, comparatively few substantial silver producers which issue any informative reports regarding their operations. It may be rather interesting, however, to see how some of the companies on which it is possible to obtain any detailed figures as to production are likely to benefit from, say, a 30-cent increase in the price of silver:

	1918 Silver Production	Increased Profit from 30c. Advance in Price	Increased Profit per Share	Earned per Share 1918
Anaconda	11,000,000 oz.	$3,300,000	$1.43	$8.92
Butte & Superior	3,000,000	900,000	3.00	2.16
East Butte	800,000	240,000	.57	1.81
Greene-Cananea	1,700,000	510,000	1.05	6.87
Hecla Mining	1,600,000	480,000	.48	2.05
Kerr Lake	1,500,000	450,000	.75	1.61
Nipissing	3,700,000	1,100,000	.91	2.10
North Butte	900,000	270,000	.63	.65
Tonopah-Belmont	1,000,000	300,000	.20	.37
U. S. Smelting	15,000,000	4,500,000	12.85	8.25

Many of these concerns are chiefly producers of some other metal such as copper or spelter, the silver output being more or less incidental. The market for these metals having been very unsatisfactory during the current year, it is not, of course, to be assumed that the increased earnings from silver can be added to the share profits of 1918, but earnings from this source should be of considerable benefit in offsetting losses on other metals, and when the market for copper and spelter improves, the silver profits on the higher scale of prices should aid materially in raising the share earnings.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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No. 834 December 5, 1919

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THE GENERAL MARKET.—Ordinarily, it is safe to say that 75% of the time the market moves sideways; the movements up and down occupy but a small fraction of the total time. This year the stock market, like everything else, has been abnormal and there has been far more movement than is ordinarily the case; two large advances and subsequent breaks. It would do the market no harm whatever if, for a time, it rested on its oars; in fact, any immediate resumption of the advance seems inadvisable in view of the present banking situation. The decline in the reserve of the Federal Reserve banking system is a very serious event.

We feel that at present the key to America is to be found in Europe. We cannot subscribe to the theory that we are sufficient unto ourselves. Our extraordinary prosperity of the last four years has had as a basis extraordinary European demand, and it is only with the continuance of this demand, in, of course, a less amount than we have witnessed during the war period, that we can expect to continue prosperous as a trading nation.

Reports from abroad are conflicting, but the best authorities seem to agree that Europe is very much discouraged. There is not the rapid progress toward normal conditions that early reports had indicated. Very serious disturbances, amounting, perhaps in some instances, to revolution, can be prevented only by furnishing an abundance of work, and for this American raw materials are greatly needed. Already one or two of our industrial concerns have begun to extend long-term credits and this is a policy that we feel must be adopted more and more.

One who would follow the probable trend of events in this country, particularly marketwise, should keep himself reliably informed on the progress toward the restoration of normal conditions abroad.

The railroad question looms larger and larger as the end of the year approaches. If rates are to be continued subject to such a body as the Interstate Commerce Commission has proved itself to be, this Commission should be specifically enjoined to make rates that will yield reasonable returns; otherwise not only will new capital not be available, but will be withdrawn from the present businesses at sacrifices wherever possible.

A market which refuses to yield in the face of many discouraging events may, as a rule, be quite safely bought. The coal strike, for instance, is as serious a threat as could well be imagined against American industry. We are frank to say that we believe that this would have been in a fair way to settlement by this time if left to the individual companies, but when one member of the Cabinet advises the operators that they should give a 14% increase and another advises the miners that they should demand a 31% increase, it is naturally difficult to get results. One can imagine what would have happened if, in the steel strike, two directors of the Steel Corporation had given such widely varying advice. It is just one more instance that goes to prove the inadvisability of too much Government.

Added to this, of course, have been the Mexican trouble and the further decline in foreign exchange. Altogether, there has been abundant excuse for the selling of stocks, yet since the break of mid-November they have continued remarkably firm.

The fact is, we do not believe that one need look for any long continued decline in stocks until there is a prospect of a decrease in the price of commodities and this is, unfortunately, not in sight.

It may well be that a number of stocks have seen their high prices, but despite the pessimism that seems generally to prevail, we cannot but feel that when the activity is resumed, it is likely to be on the upward side, though it may very well be that the advance will be featured by different stocks than have been prominent in the past.

AMERICAN OIL ENGINEERING.—American Oil Engineering has wasted no time in preliminary flourishes, but has promptly started to handle business in the oil industry in keeping with the purpose for which it was organized.

The company has already completed a thorough examination and presented a report on a certain oil property. This is a class of work for which Oil Engineering is peculiarly fitted. It is steadily assembling a large body of oil data and before long will possess a very complete and up-to-date equipment of facts covering the oil industry of the United States, condition of different fields and the operating facts and condition of different companies.

American Oil Engineering has recently booked a contract to build a pipe line for an oil producer from the Burkburnett field, construction of which is now under way. This contract is on a cost plus basis and is expected to produce satisfactory net profits.

The company has also received an order to drill a well for another oil company. A complete rotary drilling outfit has been purchased and drilling has started. This same company has promised a contract for a second well as soon as the first is completed. American Oil has ordered a second drilling outfit for prompt delivery and has arranged to secure the necessary drill pipe and other materials.

An office has been opened in Fort Worth, Texas, which will be the center of its southwestern operations. The company at present has a representative in Louisiana who is studying new developments in that field.

When American Oil Engineering was organized it represented a serious effort to place at the disposal of the oil industry a body of competent oil engineers and oil experts. In the way of field construction work and in the sphere of examination and report the company is equipped to handle a large volume of business. Its initial business has been fully up to expectations.

SOUTHERN PACIFIC.—In 1918 the Southern Pacific was one of the comparatively few railroads which on its own operations earned more than the Government guarantee. For that year the corporate income, based on the federal compensation, was equivalent to a little over 11% on the company's capital stock. Had the road been operated for its own account, however, the percentage for the stock would have amounted to about 13%. While that figure is somewhat below the high record of 17.65% made in 1917 it is still the second best that the Southern Pacific has ever been able to show.

This year earnings have fallen considerably below those of 1918. Up to September every month but June produced a materially smaller net revenue than the same month of the preceeding year. And it is hardly fair to compare the June figures, inasmuch as in 1918 a cumulative wage increase was taken out of the earnings of that month. In September, however, an increase in net was reported; the total for the nine months coming to $26,304,457, as against $36,890,671. Assuming that the first three quarters produce about 72% of the year's net income the indicated net revenue for 1919 would be about $36,800,000, which after allowing for other income and deductions on the 1918 basis would leave a balance for the stock equivalent to just about 8%. The present 6% dividend rate is, therefore, being earned with a fairly safe margin to spare.

The Southern Pacific shares have, in the past year or more, consistently maintained a higher price level than the rank and file of railroad stocks. This has been due, no doubt, to the oil possibilities of some of the company's land holdings. The recent adverse decision by the United States Supreme Court involving about 6,100 acres in California was accompanied by a rather severe decline in the price of the Southern Pacific stock. This is, however, a comparatively unimportant decision. The total value of the property involved is estimated at only about $10,000,000. The most important case, involving 162,000 acres of lands, valued at several hundred million dollars, was decided in favor of the Company by the United States District Court, and the Government has just decided not to prosecute the case further. The Company therefore now seems secure in its ownership of the most valuable oil properties.

In 1918 the Southern Pacific oil properties produced in the vicinity of 8,500,000 barrels, which showed a net profit of $6,250,258, not including the cost of drilling as an operating expense. Since the filing of the suits contesting the validity of the oil titles, the company has been enjoined from drillng in the contested area. As a result, the 1918 output was smaller than for several years preceding. Indeed, it has been estimated that, with the litigation eliminated, thus opening the way to free development of the oil lands, these could very soon produce from 15,000,000 barrels to 20,000,000 barrels annually at a profit which would be equivalent to about 4% on the Southern Pacific capital stock.

AMERICAN AGRICULTURAL.—The prospects are excellent that the earnings of fertilizer companies next spring will be highly satisfactory. There is an unprecedented demand for fertilizer and a shortage in production. This shortage is estimated at varying amounts from 10 to 20%.

It may seem inconsistent that the fertilizer companies have not put themselves in position to furnish a 100% supply. Various factors have combined to render this impossible. One important influence has been a strike in the phosphate rock mines of Florida. This strike lasted long enough to affect materially the supply of this basic raw material upon which the fertilizer companies depend. It has now ended with the phosphate rock companies having won in their contention for the open shop.

Another favorable factor in the general fertilizer situation is the fact that the Government has permitted free market conditions to prevail. The era of Government price regulation and distribution has ended. This is perhaps formal recognition of the fact that the industry has completed its readjustment to a peace basis.

American Agricultural common earnings in the fiscal year to June 30 last were disappointing to those who has felt that profits of 35% in the 1918 year would be followed by a second year of strong earnings. The actual figures showed less than 8% earned on the $31,655,200 common outstanding on June 30. The amount earned on average stock outstanding during the late fiscal year was 10.4% which, considering the rapidity of bond conversion and the issuance late in the fiscal year of $10,000,000 additional common, is a fairer test of earning power.

It is, of course, idle to even attempt to estimate common share profits for the current 1920 fiscal year. This much seems extremely probable—the earnings will evidence a sharp rebound and will be sufficient to make the present 8% common dividend appear entirely conservative.

AMERICAN COTTON OIL.—Perhaps the most striking feature of American Cotton Oil operations during the last five years has been the rather mediocre character of its disclosed earning power. This company has $15,000,000 in bonds and notes and $10,198,600 in 6% preferred ahead of the $20,237,100 common. On this $25,000,000 of prior capitalization American Cotton Oil earned in the fiscal year to August 31 last $2,694,214 or only 10%. And in no year of the past five has the balance of net been as large as in the fiscal 12 months just ended. However, until 1918 the amount of notes and bonds outstanding was $10,000,000 instead of the present $15,000,000. It is, therefore, approximately correct to state that during the war period American Cotton Oil has shown an average earning power on its capital ranking ahead of the common of about 10%. This is not an impressive earning power and unless the business possesses marked stability the assurance of 4% dividends on the $20,237,100 common is by no means beyond question.

American Cotton Oil, has, however, improved its financial position by the funding into a five-year note of $10,000,000 one and two-year notes maturing in September. Incidentally, there is an interesting point in the fact that the company has agreed to cancel $500,000 par of these notes each year. This $500,000 is actually in excess of the surplus shown in any year of the past four after payment of common dividends. The question may properly be raised if in agreeing to a $500,000 sinking fund the company did not tacitly express considerable confidence in the expansion of its earning power. Either that or as has sometimes been suspected the annual statements by not including the full earnings of subsidiary companies do not disclose the full earning power of the system.

American Cotton is an important producer because it represents the creation of economic values out of materials which some years ago were considered worthless. The food products—edible oils—and the soaps which concerns like American Cotton and Southern Cotton Oil manufacture are in wide demand. They are standardized and for the most part trade-mark goods.

A succession of short cotton crops has cut down the supply of cotton seed upon which Cotton Oil depends. It is not improbable that as time goes on the cotton oil industry will use increasing quantities of cocoanut oils. In fact the use of cocoanut oils in conjunction with cotton oil may be said to have already begun in a substantial way.

On August 31 last American Cotton Oil had net quick assets of $20,211,475, an increase of $6,601,443 or 47% since 1915. Of this increase $5,000,000 has come through sale of notes and the balance from undivided profits. The net quick assets are, however, equal to par for its bonds and notes with a balance of $51 per share for the preferred. On August 31, 1915, the preferred had but $35 per share in net quick assets.

American Cotton Oil is now paying $4 dividends on its common. The shares have sold this year as high as 67½ and at current prices show a decline of 18 to 19 points or about 25%. There has been talk of an increase in the dividend rate of 5 or even 6%, but it will clearly require something more convincing than the company has yet shown in the way of earning power to make possible such a development.

CUBAN AMERICAN SUGAR.—Except for the remarkable 1916 year net profits of Cuban American Sugar in its fiscal year to September 30, 1919, exceeded any former showing in its history. The actual net profits before taxes were, of course, in excess of any other year. But in 1916 the company had no Federal taxes to pay while the Government share of earnings of the late year could not have been far short of $4,000,000.

Cuban American Sugar has outstanding $4,000,000 serial notes, half of which will be paid off on January 1 next, $7,893,800 7% preferred and $9,999,800 common now paying cash dividends of $10 per share.

It is understood that the final profits for the common in the 12 months to September 30 last, after all prior deductions were very close to $65 per share. How this compares with recent years is concisely pictured in the following:

Sept. 30	Amount Common	% Earned
1919	$9,999,500	*$65.00
1918	9,999,500	36.75
1917	9,999,500	63.40
1916	7,135,600	107.66
1915	7,135,600	70.65

*Estimated.

During these five fiscal years Cuban American Sugar has earned nearly $300 per share on its present common. The exact figure is $293. Of this amount $60 has been paid in dividends, while the balance, or $233 per share has gone back into the business.

The company had on September 30 a profit and loss surplus of over $21,000,000, or better than $200 per share on the common. Sooner or later the shareholders should receive a portion of these undistributed profits in the form of a stock dividend.

Cuban American Sugar, in 1920, should produce a record sized crop of sugar, but not materially more than the 1,938,000 bag output of the September 30 year just ended. A crop of something better than

2,000,000 bags is in prospect, which would continue Cuban American as the second largest producer, the Cuban Cane Sugar being the only Cuban company handling a larger output.

One feature of Cuban American operations which is bound to count in its favor in the future even more than at present is the high degree of producing efficiency which has been attained. Surplus earnings have not gone into additional lands, new mills or purchase of other Cuban properties. Nearly $30,000,000 has gone back into the business, less than half to working capital and the rest toward the creation of a sugar property that in point of equipment, modernization and operating economy has no peer in Cuba and probably not in the world. Cuban American is a very highly tuned piece of sugar mechanicism. In a slump in sugar prices it could reasonably expect to reap profits where others would lose money.

But the suggestion of losses in Cuba sugar production is an undue discounting of a future contingency which competent authorities believe is several years distant. Certain it is that the 1920 outlook for Cuban American is the most brilliant in its career. Share profits can hardly fail to exceed by a considerable margin the $65 share earned in the 12 months to September 30.

On the basis of $400 per share for the common and a 2,000,000 bag crop, Cuban American, including at par the $7,800,000 preferred and the $2,000,000 notes which will be left on January 2 next, is selling for nearly $50,000,000, or $25 per bag. This $25 per bag may appear high in comparison with the old basis of $15 per bag of capital applied prior to 1914. But there are plenty of competent sugar authorities who believe that $25 per bag is an entirely fair and conservative test basis. They point out for example that Cuban properties are actually salable at $25 per bag and could not be duplicated for even more. In the pre-war days it was customary, for example, to figure capital per spindle of New England cotton mills at $20. Very recently mills have built additions at a cost of $60 and $70 per spindle and in England mills have charged ownership as high as $80 per spindle. The New England cotton mill, which is not selling 40 to 50% above the old arbitrary $20 per spindle level is a rarity.

Precisely the same thing, only in less degree, has happened in sugar. Cuban American Sugar is still capitalized at $10 per bag on par for its securities. But it is selling at $25.

BUTTE AND SUPERIOR.—It is, perhaps, not generally appreciated that the price of spelter has recently shown a strongly advancing tendency; in fact, it is now a full cent a pound higher than the average on which the earnings of the Butte and Superior for the third quarter were based.

The latest reports from this company indicate profits from operations at the rate of about $4 per share on a price for spelter three-quarters of a cent per pound below that now obtaining. This increase in the price of spelter, together with the strong silver market (the Butte and Superior ores contain over six ounces of silver per ton), will have a very material effect on the earnings to be reported for the current and subsequent quarters.

The price at which the stock is selling, within three points of the low for the year, would indicate a great deal of apprehension (we think, perhaps, rather an undue proportion exists), as to its remaining legal difficulties.

So far as the present and future operations are concerned, it should be understood that the company is free from any liability. Of the two suits against the company, that by the Elm Orlu interests was settled for all time by the surrender of a portion of its ground and the payment of $2,500,000 in cash. Incidentally, the ground surrendered constituted what would have originally been considered a large proportion of it holdings on this lode, but developments of recent years in the "Four Johns" claim to the east had offset to quite an extent the territory given up under this agreement. After the payment of this sum in cash, the Butte and Superior had remaining in its treasury over $1,000,000 in cash and cash assets.

As to the Minerals Separation suit, it should be appreciated that under the decision of the Supreme Court, the company, by the use of 20 pounds of oil to the ton, is free from any liability of royalty payment. This amount the company has been using ever since the decision was handed down and has been getting as good results as at any time in its history.

It should be appreciated that, financially, the cost of 20 pounds of oil as applied to a ton of this ore, with a gross value of over $20, is not a serious matter. Consequently, so far as the present and future operations of Butte and Superior are concerned, it may be considered free from any legal entanglement.

The only question remaining is the amount of damages, if any, they may have to pay for past infringement of the Minerals Separation patent. This was left to be adjudicated by the court. Under these conditions, it would obviously be improper for us to make any predictions, but it is noticeable that, under the accounting required of the Butte and Superior, it is estimated by this company that the amount it should pay does not exceed $451,000.

While this is a considerable sum of money, it would not be, of course, at all difficult for the Butte and Superior to meet. After this matter has been settled for whatever sum the court considers equitable, Butte and Superior's legal difficulties will be definitely behind it.

Finally, it is worth observing that, through its use of oil as a fuel, the company is unaffected by the present coal strike.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—The week's events have been mostly of an encouraging nature. Chief among these have been the settlement of the coal strike and the increase in the unfilled orders of the Steel Corporation. It was in a way unfortunate to have been necessary to grant a further increase in the coal miners' wage; not that any fair-minded person would begrudge a wage necessary to maintain a decent standard of living, but all the facts tend to show that much more than that could easily have been earned at the former rate by any miner willing to do a fair day's work six days a week. It will prove, we fear, simply another step in the vicious circle of higher wages and rising prices. If, as promised, the increase is to be absorbed by the operators, this may be avoided, though it is difficult to see the logic of putting the entire load on the operators. The only thing to justify this would be a more systematic scheme of production, involving a more regular car supply and a whole-hearted effort by the miners permitting uninterrupted operation and larger volume. From a more narrow market viewpoint, the removal of the threat of national paralysis of industry should prove stimulating.

The increase in the unfilled orders of the Steel Corporation is a matter for satisfaction without any reservation. Note that these orders are measured in tonnage, not money value, so that their genuineness cannot be questioned. As a matter of fact, the Steel Corporation, like many large producers, has labored sincerely to keep prices within bounds, adhering strictly to the agreement of last spring, when in one of the differences that seem to occur from time to time between leading Government officials, they accepted the ruling of the Director of Railroads, continuing the previous price on steel products.

In the charges of profiteering by irresponsible people, such facts as these should not be lost sight of. The fact is beginning more generally to be recognized, that high prices are not due to any general desire to profiteer, but are simply the result of economic forces far beyond anyone's control. The effort of a few months ago to combat these by locating and distributing so-called "hoards" of goods now seems rather ridiculous. These forces must run their course; these prices are their own best cure, as nothing so stimulates production and decreases consumption as high cost.

As against these favorable items of news must be balanced the further decline in foreign exchange and the warning of an eminent economist that help must be forthcoming from this country or disaster impends abroad. Now that the proposed plan of Government aid in the extension of credits has been definitely abandoned, it is all the more important that efforts by business interests, both individually and collectively, shall be redoubled. As a matter of fact, there must have been a good deal of credit extension by individuals already allowed to account for the volume of exports that has continued. This extension of credit is not a matter of charity, but hard business sense.

When not under pressure of high rates the market gives every evidence of the desire to capitalize large earnings and is evidently impatient of control, but it is faced by the very serious fact that, to put it bluntly, the borrowing limit of the country has been reached. The last reservoir of credit, the Federal Reserve System, has been drawn down to a point beyond which it is not safe to go. The Federal Reserve Bank of New York reports barely the legal reserve of 40% in gold against notes, and as the tendency in gold has now turned from a balance of imports to one of exports, unless we are to abandon altogether the gold standard, there can be no further extension of the foundation on which to rear a credit superstructure. Clearly, speculation must be held in check until the strictly commercial needs are satisfied.

We see then a balance between two opposing forces; the desire to purchase securities in view of generally larger earnings is quite natural, but to increase credit to satisfy this desire would be inviting disaster. As there is some liquidation of commercial credit, this may be possible, but this will, naturally, take some time. If left to its natural tendency the course of prices in the majority of securities would, we believe, be upward. Realizing this, and the general scarcity of goods, we cannot but take a rather optimistic attitude, but deem it unwise to encourage the increasing of commitments in order to follow out this tendency at the present time.

WALWORTH MANUFACTURING COMPANY.—During the last two months there has been a very notable revival in the demand for the products of the Walworth Manufacturing Company. Incoming orders in October and November have been at the largest rate in the company's history. More than that, November was the largest production month the company has ever had and December output will be even greater.

And yet, despite this excellent record of manufacturing Walworth will carry over into 1920 the largest volume of unfilled orders it has ever had on its books at the end of any year.

The record proportions of incoming business in recent months are attested by the fact that gross bookings have been at the rate of over $22,000,000 per annum, compared with an actual overturn in 1918 of less than $18,000,000.

In the first six months of 1919 Walworth net profits were not satisfactory. Following the armistice prices of valves, pipes and fittings which are three of its important lines, were considerably reduced. The price cuts did not stimulate buying. The period of hesitation following the ending of the war simply had to be lived through. The experience of the manufacturers in these lines with lower schedules was rather unsatisfactory, so that in June or July the old prices were restored. There was, indeed, every argument why they should have been as cost of production has been steadily on the upgrade.

The higher selling prices and a sharp revival in demand which started shortly after the beginning of the second half year have jointly sufficed to produce a decided betterment in net profits. Thus although the earnings for the first half year were unsatisfactory, for the full twelve months to December 31 the company should show earnings of at least $4 per share and possibly slightly better after taxes and all prior deductions. Needless to say recent earnings have been very decidedly above this rate.

These profits, if realized, would compare with a balance for the common of $3.39 in the December 31, 1918, year and of $4.69 in 1917.

It is in nowise stretching the limits of conservatism to state that as the 1920 prospects now shape themselves next year will be the best Walworth has ever enjoyed, both in respect to gross output and more especially in the balance for the common. In view of the heavy carry-over of unfilled orders and the outlook for the early part of 1920, Walworth should start the new year with net profits for the common running at the rate of double the 1919 rate.

An agreeable feature of the company's situation is the fact that these gains in volume of sales and profits are being achieved with so little outlay for new construction. Capital expenditures in the first eight months were only $109,000. Plant changes and additions have been distinctly minor, designed to permit night shift operations and for the better balancing of production. The Kewanee plant has increased its operating force by 60% to a total of 3,600 employees and the effect of this increase is, of course, decisive in tonnage output.

Walworth Manufacturing, despite a demand in excess of its productive capacity, will adhere to the present policy of making no major plant additions. It will improve the efficiency of existing physical equipment in every way possible, but will stop there.

The company continues in strong financial position. Its working capital is sufficient to offset at par $2,810,000 bonds and preferred and have $9 per share for the common. The total asset value of the common by December 31 should be better than $32 per share.

GOODYEAR TIRE & RUBBER.—The growth of Goodyear Tire during the six-year war period has been one of the industrial romances of America. The company has just issued its statement for its fiscal year terminating October 31. In that period all previous figures both of gross sales and net profits were eclipsed.

Gross sales reached a total of $168,914,982, a gain of $37,667,546, or 28.7%, compared with the 1918 year. Net profits after deduction of interest on $9,500,000 floating debt and after depreciation, but before taxes, were $23,277,245, an increase of $7,889,055, or 51.5%. In the 1918 year the ratio of net income to sales was 11.7%. In the year just concluded it was 13.7%, a clear gain of 2%. In other words, had the ratio of net profits to gross been no larger than in 1918, the balance of earnings would have been $3,360,000 smaller than it was.

Considering the fact that tire prices were cut 15%, that cost of materials, aside from rubber steadily advanced and that labor was restless and inclined to inefficiency, such a showing is highly creditable. It is fresh proof of the value of capacity operations.

The Goodyear annual figures are of particular interest because they are the first of any of the big rubber companies to appear. The fiscal years of such companies as United States Rubber and Goodrich end December 31.

The Goodyear figures bear out what has been stated right along—that 1919 would be a twelvemonth of unexampled prosperity in the rubber industry.

Goodyear is 75% a tire company. It is not exclusively a tire company, as many suppose. But it is the largest tire company in the country, the order of ranking being Goodyear, United States, Goodrich, with Firestone, Kelly Springfield and Fisk forming a strong second group.

The growth of Goodyear since the end of its 1913 fiscal year is well pictured in the following tabulation:

	1919	1913	Increase	% Increase
Gross	$168,914,982	$32,998,827	$135,916,055	411%
Net profits	23,277,245	2,041,268	21,235,977	1040
Ratio net to gross	13.7%	6.2%	7.5%	—
Working capital	57,000,317	5,778,756	51,221,561	866

Goodyear has in the past two months improved its financial structure by arranging to call in and retire

its $23,783,800 7% first preferred and its $14,825,200 8% second preferred. In place of the $38,608,800 par of these two issues the company has created a new issue of $40,000,000 7% preferred.

This financing has provided no new money, but it has enabled the company to get rid of an awkward second preferred issue and a practically closed first preferred. Instead the company will have an authorized issue of $100,000,000 7% preferred and $100,000,000 common. There is room for growth in an issue of this size and if Goodyear jumps to a $200,000,000 gross business in its 1919–20 fiscal year as now seems probable, some further financing might logically be expected.

ARIZONA COMMERCIAL.—It is reassuring to note that there is quite a general disposition in copper mining circles to disregard the momentary sluggish market for the metal and look forward to the time when—with a normal consumption—there will again be a demand for all the copper that this country can produce.

A number of properties that warrant it, and have far-seeing managements, are actually laying plans now for the time when they will be called upon for increased production. The United Verde, for instance, is planning for an output of 120,000,000 pounds per year, against its production last year of 70,000,000; the Inspiration is working on a leaching process for the treatment of its carbonate ores, with the idea of, perhaps, ultimately, building a 5,000-ton plant for their treatment.

These are merely typical of several instances among the larger properties.

In the group of smaller properties, the Arizona Commercial is taking similar steps. In proportion to its output this company has one of the largest showings of ore of any of the vein mines. The shaft is down to the 1,600-foot level and, indeed, within the last three weeks, the crosscut on this level has encountered the ore body finding it well up to the average grade.

It will be recalled that the "Budget" fault throws the ore up several hundred feet, so that east of this fault the ground is almost virgin. At present the company is mining about 6,000 tons per month. It is, however, sinking a new shaft, which will have a capacity of 400 tons in six hours. With this the company should have no difficulty in mining easily 10,000 tons per month.

It is estimated that there is in sight about 750,000 tons of ore, so that even on this larger rate of production there is some six years' supply of ore in sight. At this rate of mining it should not be difficult to produce 12,000,000 pounds of copper per year, as against a rate hitherto attained of around 8,500,000.

The relation between cost and price of copper production have been so upset of recent years that it is difficult to take any definite basis for estimating earnings. The ore, however, running 5½ to 6% is decidedly above the average of vein mines and should make for a cost somewhat lower than the average. With a normal spread between cost and price on a full production, it would not seem unreasonable to figure on a profit of $2.50 to $3 per share.

OTIS ELEVATOR.—Almost immediately after its October listing on the New York Stock Exchange, Otis Elevator common stock scored an advance of $20 per share to a high of 140. In the November general slump in the market the shares lost all this gain, but have since made up half their decline. But even at $130 per share the price of the common has appeared high to those who have known this issue for years as an inactive curb specialty.

The fact is that the past 12 months have wrought a most considerable revolution, not only in the earnings, but more particularly in the financial position of Otis Elevator.

As late as December 31, 1917, the Otis Company was borrowing $6,200,000 from the banks. In addition it had $3,100,000 debenture bonds falling due on April 1, 1920. These obligations, together with $6,500,000 6% preferred represented a total of $15,800,000 of securities prior to an issue of $6,371,587 common, which was then and still is paying 5% in dividends.

But Otis Elevator had a good year in the fiscal 12 months to December 31, 1918. Not only was there a sharp expansion in earning power, but a 40% liquidation in inventions enabled the company to cut its floating debt in two to a December 31 total of $3,200,000.

And the financial progress made last year has been powerfully accelerated in 1919. At present floating debt for the first time in many years has dropped substantially below the $1,000,000 mark.

And what is of equal importance the strong record of net profits being attained this year several months ago forced up the price of the common above par. The inevitable result has been that holders of the $3,100,000 convertible debentures have been turning their bonds into common stock. Already 50% of the bonds have disappeared into common. With the price of the convertibles practically on a parity with the common, it is a moral certainty that before April 1 next the present bonds will have been exchanged for common. In other words, there will be no refunding. Therefore, as things line up at the minute, Otis Elevator, instead of having $15,800,000 in obligations precedent to its junior stock, has at present but about $8,700,000, ranking ahead of what now amounts to nearly $7,900,000 common. And by April 1 next there is a very fair chance that the company will have but about $7,000,000 of bank loans and preferred stock preceding its then $9,500,000 common stock.

Otis Elevator was more hurt than helped by the war. In 1917 and 1918 it did considerable Government work, but its regular domestic business was very sharply depressed. In 1919 orders have poured in from all over the country. Much of this business has come in the last few months and for this reason will not be finished and shipped out in time to count in 1919 net.

All this is equivalent to saying that Otis Elevator will carry over into next year the largest total of unfilled orders in its history. This total will not be less than $20,000,000, according to the present outlook.

But the company has this year done a big enough volume of business so that net profits for $7,900,000 common can hardly fail to reach $20 per share. This would double the 9.7% earned on $6,371,000 common in 1918.

And with a nation wide shortage of buildings and lively prospects in its Canadian and English fields Otis Elevator has every right to look forward to 1920 with great confidence.

Thus while the original advance in the common to above par was predicated on strong earnings the continuance of the advance has been based on a comparatively sudden and brilliant betterment in the statistical position of the common.

The $5 dividend on the junior stock obviously is only temporary. Ultimately there must be an adjustment between earning power and dividends.

CLEVELAND, CINCINNATI, CHICAGO & ST. LOUIS.—During the past four years this road has made one of the most remarkable showings of any railroad in the country. Indeed there are very few that can equal it and none that can surpass it.

Capitalized for a total of about $166,000,000, of which $109,000,000 is bonds, $10,000,000 preferred stock, and $47,027,700 common stock, the Big Four operates approximately 2,400 miles of road. The capital outstanding per mile of road operated is, therefore, $70,000, of which $46,000 is represented by bonds. It is this relatively large amount of funded debt, as compared with stock that has been largely responsible for the wide fluctuations in the earnings available for dividends in previous years. During the last few years, however, gross business has expanded so rapidly and such a close check has been kept on operating costs that there has been a sensational jump in the profits available for the common stock.

In 1915 the percentage earned for the common stock came to 6.15%, in 1916 to 16.59%, and in 1917 to 10.05%. In 1918 the corporate income, based on the guaranteed rental paid by the Railroad Administration amounted to only 9% on the common, but the actual earnings were much more and had the Big Four been operated for its own account last year the balance available for the common shares, after allowing for the 5% dividends on the preferred stock would have been 22.61%. This company, therefore, made a profit for the Government of approximately $4,600,000.

Many of the roads which last year earned in excess of the Government guarantee, have made a rather disappointing showing in 1919. The Big Four, however, has a good prospect of equalling, if not excelling its 1918 record. For the ten months of the current fiscal period to October 31, net operating income was reported as $12,269,790, as against $12,387,220 for the same time last year.

The month of October this year produced $800,000 more net than last year, and should November and December show anything like this proportion of increase, 1919 will be even better than 1918. At all events the company seems practically assured of a balance equal to between 20% and 25% on the common stock. The return of the railroads to private operation under almost any terms would, therefore, appear to have no terrors for this company.

CHANDLER MOTOR.—Substantial foundation for the remarkable boom in the automobile stocks may be found in the current earnings of the Chandler Motor Car Company.

In connection with the listing of the 210,000 shares of new stock without par value, which has been issued in exchange for the 70,000 shares of $100 par value, in the ratio of three shares of new stock for one of old, the company reported that net earnings for the eight months to August 31, 1919, amounted to $3,189,835. This is after all expenses, but before any deduction for federal taxes, and compares with a net of only $2,194,618 for the whole of 1918 and $2,382,403 for the whole of 1917. As applied to the amount of stock now outstanding, the eight months' profit is equivalent to $15.19 per share, or at the annual rate of nearly $23 per share. As a matter of fact, it is almost certain that the full year's earnings will very much exceed the latter figure. September and October have been by far the best months that the company has ever enjoyed, it being said that profits for those two months alone will come pretty close to those of the entire 1918 fiscal period.

The Chandler Company has never deducted federal taxes from its income accounts. The 1917 tax was taken out of surplus at the close of the 1918 year and amounted to $635,902. The balance sheet for August 31, 1919, shows accrued taxes of $708,611, which is described as the amount due on 1918 federal taxes. Manifestly, with earnings now running at a much greater rate than heretofore, the 1919 tax will be much larger than ever before. There is, however, good reason to believe that Chandler will be able to show the $8 dividend on the increased amount of stock earned three or four times over.

The balance sheet for August 31 shows some rather interesting changes. Net working capital stood at about $5,700,000, as compared with $4,360,000 at the end of 1918. Cash and Liberty Bonds amounted to nearly $4,000,000, as against $1,900,000 eight months before. Most of the company's tangible assets are in current form, the plant being valued at only $1,272,751, although like all the motor concerns the company has a big "Good Will" item—$5,000,000. Disregarding this item, the net asset value of the stock is just about $33 per share; including it about $57 per share.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.— The market continues to exhibit signs of nervousness over the monetary situation. This is quite natural, yet we doubt if altogether well founded. While any attempt to expand collateral loans would be properly frowned upon, the restrictions imposed by the banks are today aimed as much if not more at commodities than at stocks. The stock market was the first to feel the tightening of the reins, and has had its shaking down. So far as this particular factor is concerned, we feel that its influence has been quite fully expended. There has been, however, quite as great and in most instances, a more unwarranted speculation in commodities than in stocks. This should be, and is being corrected. If it shall have the effect of reducing commodity prices to some extent, so much the better. In this connection, there is no doubt a very widespread feeling that we are commercially at the crest of the wave, and that once commodities begin to go down, there will be no arresting the fall; that this is going to cut down corporation profits to a fraction of present proportions and, consequently, that a discounting of this process can be logically reflected only in the liquidation of stocks. While there may be a measure of truth in this argument, we question whether it has not become too much of a bogie. While there are, undoubtedly, some stocks whose present quotations depend upon an abnormal margin of profit, there are also many that do not. It must be remembered that the productive capacity of nearly all concerns has been enormously increased in the last five years. If this capacity can be employed at what used to be considered merely a normal margin of profit, it would warrant not only present quotations, but in many instances considerably higher ones. This is notably true of the steels and coppers, but also in scarcely less degree of many manufacturing companies. It remains to be seen, however, how much of the present level of commodity prices is due to unwarranted speculation that may be curbed by advancing discount rates, and how much to demand and supply. If, as we believe, the latter is the chief reason, many people are borrowing an unnecessary amount of trouble.

The one really unsettling event of the week has been the drop in foreign exchange to a new low level. It was quite naturally hoped that the recent recovery would prove permanent. If foreign exchange remains long at these figures, or goes even lower, it cannot but have a depressing effect, as it would be an indication that the resources of private exporters in the way of credit extensions are not sufficient. It is devoutly to be hoped that the persistent reports of England's commercial recovery will speedily prove true. This, coupled with some recession in commodity prices on this side, would restore the balance sufficiently to permit resumption of normal purchases here.

Time is rapidly slipping by, and as yet no constructive action has been taken by Congress on the Railroad question. In view of the announced intention to restore the railroads to their owners by March 1, it is of the greatest importance, not only to the holders of railroad stocks, but to the whole business world, that this should be settled on a basis that will not only safeguard capital already invested, but attract new capital. Only the establishment of an adequate rate structure can do this. Each one should consider it his particular business to bring all possible pressure to bear in this direction. Incidentally, the restoration of railroad credit would quickly create a buying power that has long been absent.

There is one factor in the market not to be overlooked, and that is that many of the larger holders of stocks who could not afford to take a large part of their profits last year will feel like realizing more this year. This, undoubtedly, is bringing more stocks on to the market, and partly accounts for liquidation, especially in the high-priced securities. This influence, however, should soon run its course.

For the immediate present, it is practically useless to expect any great improvement. Looking beyond this period of current unsettlement, we cannot but feel fairly hopeful. It is under just such rather discouraging conditions that stocks are accumulated, to be later distributed when the skies are clearer.

SOUTHERN PHOSPHATE CORPORATION.—There are three outstanding features to the Southern Phosphate enterprise, whose shares—as our clients are advised by separate letter—we are offering to them this week at $26 per share.

First.—The company will own a large deposit of a very essential raw material. The three properties brought together in this enterprise have a combined tonnage of over 12,000,000 tons, of which over one-half is high-grade phosphate rock suitable for export. At $26 per share, the total valuation placed on the 120,000 shares that will be outstanding will be a little over $3,000,000. Deducting from this the value of the plant facilities and net current assets leaves a valuation for this rock of about $1,000,000, or 8 cents per ton.

While there are enormous tonnages of standard grade phosphate rock in Florida, the high-grade deposits discovered to date have been relatively limited. We feel confident that the tonnages of rock owned by

this corporation, if offered on the market today, would command a value at least double the above figure.

With the acquisition of the property that the company is under contract to purchase, it will own over 27,000,000 tons of phosphate rock, of which over 10,000,000 will be of a high grade, suitable for export, and the balance available for domestic use.

Second.—Southern Phosphate will be a going proposition from the start. There will be no tedious construction period. Two of the three properties comprising this enterprise are actually producing today, and the third is expected to start in the immediate future. The estimated output for this year is 290,000 tons. By the middle of this year the company is expecting to attain a rate of 360,000 tons, and as stated in the descriptive letter, with the purchase of the additional property, stockholders may look forward to an annual production of 700,000 tons.

Third.—The earnings of this company are assured by the nature of its business. American phosphate rock is one of the important ingredients of European fertilizer, which they have been using in increasing quantities for years. It, therefore, constitutes an important factor in their food supply. There is evidence to show that lands that have been deprived of their usual allowance of fertilizer during the last four years have fallen to 25% of their former productiveness.

The demand for phosphate rock seems assured for several years to come to make up the deficiency of the last five years.

The ownership of phosphate rock is sufficiently large to form the basis for a large expansion in operations. Profits before taxes from the first year's shipments should equal $6 per share on the stock; by the middle of this year the rate of earnings should have advanced to $8, and on the 700,000 ton production that is in contemplation, the earnings, under normal conditions, should be equivalent to over $10 per share.

Subscriptions to the stock of the Southern Phosphate Corporation close January 24, the day that this letter will reach most of its readers.

Any subscription that it is desired to enter which has not already been made, we suggest, therefore, should be immediately wired.

NATIONAL SUGAR.—One of the strongest and in proportion to its importance in the industry, perhaps one of the least known of the sugar refining companies, is National Sugar.

The company has a refining capacity one-third that of American Sugar by which it was at one time controlled. At present American Sugar owns 25% of the $10,000,000 stock, the only capital obligation which the company possesses. At one time 50% of its stock was owned by American Sugar which in February, 1913, offered half its stock to American Sugar stockholders at par. Even today it is probable that a considerable proportion of National Sugar shares is held by individuals who are also stockholders in American Sugar.

During the past three years National Sugar has made a very strong record of earnings. The 1919 net profits were the largest in its history, just as those of 1918 exceeded any former year. The company issues no annual statement and has never made public the record of its operations.

There are excellent grounds for the statement that net profits during the last three years have considerably exceeded 75% on its $10,000,000 of share capital. This is net after taxes and depreciation. The company has paid for several years 7% dividends on its stock, but undivided surplus has now very plainly accumulated to a total where a substantial stock dividend could be paid were the Supreme Court decision to hold that such dividends are not taxable.

There is an outside market in National Sugar shares. In the big market of 1919 the stock advanced steadily from 115 to a high of about 155. It has held this advance with great persistency. The current quotation is about 147 to 149 and the stock has at times been in demand by those who were aware of the excellence of its management, its strong earnings and the probability that in time the present under-capitalization would be adjusted by a dividend distribution of some sort.

AMERICAN LOCOMOTIVE.—The recent improvement in percentage of operations which American Locomotive has attained has been due in large part to the clearing of the ways for the starting of work on a 500-locomotive order for the railroad administration. This order has been on the books for months, but specifications were not furnished until so late in 1919 that actual work did not start until December.

Beginning with August last, there was a gradual decline in the percentage of operation at the American Locomotive plants. The low point was November, when the five operating plants ran at about 14% of capacity. But thanks to the railroad administration order, the percentage in December jumped back decisively to better than 35%. January and February will have the benefit of the completion of this 500-unit order, as well as work on the 75 Belgian locomotives. This Belgian equipment is not yet actually in production.

The Belgian government will probably award 50 additional locomotives of the same type to Canadian builders and in that event the Montreal plant of American Locomotive should receive its fair proportion of the business.

American Locomotive has changed the date of the end of its fiscal year from June 30 to December 31 to coincide with the calendar year. The annual report soon to be issued will, therefore, be a six months' statement, covering the fiscal period ending December 31, 1919. The results will be fairly satisfactory in the sense that whereas at one time it appeared as if the six months would barely show the half year's

proportion of the 6% dividend on the $25,000,000 common, it is now pretty definitely assured that the balance for the equity shares will be between 5 and 6%.

That the company is able to obtain a fair volume of net on a greatly lessened volume of gross is due partly to increased efficiency of operation and in part to the large income flowing from its heavy investment in government treasury certificates. American Locomotive has at present nearly $35,000,000 of invested funds, the income from which actually exceeds the amount required for 6% common dividends.

Of course, on a heavily expanded volume of production these investments could be sold at least in part and the funds used for inventory or accounts receivable. But these Government certificates are immediately convertible into cash and obviously this money invested in production would yield larger profits even than it does in its present form.

There is one phase of its business in which American Locomotive is rather unique. Very many industrials require an 80 to 95% basis of operation to produce a worthwhile earning power. But this equipment company can run as low as 16 or 18% of capacity and still break even. It can make satisfactory common dividends at 35% and on 60 to 75% of capacity its profits take on sensational characteristics. In other words, just because of the enormous ebb and flow in the volume of its orders, the Locomotive Company has been forced to acquire a flexible operating system. In self defense the company has secured an elasticity and capacity to earn on a low basis of operation which is, perhaps, not exceeded by any other group of industrial companies.

There has been in the last two weeks a great deal of published comment on the enormous equipment orders which domestic roads must place after March 1. One authority has estimated locomotive orders imperatively needed during the next two years at $250,000,000. The trouble with all such figures is that they are purely estimates. Actual results are all that count in the bottom line of the income account.

There has been this significant development, however. A number of important railroads have requested Baldwin and American to reserve space for them later in 1920. No actual orders have been placed by these roads, but they are asking for reservations against orders which they expect to place later, when the return of the railroads has been completed and they have been given the assurance of the earning capacity to which their assets and importance entitle them. Incidentally one of the motives for asking for reservations is the belief entertained by the executives of these roads that when the buying wave starts it will quickly absorb the productive capacity of locomotive builders in the United States.

One development which is practically assured when the railroads return to private operation is the probable abandonment of the so-called standardized locomotive. The standardized locomotive was accepted as a war emergency, but was never popular. As long as differences in personality persist the attempt to universalize will run counter to human nature. This pending change is just one more straw showing the disposition of mankind to return to the prewar conditions of individual initiative.

WESTERN UNION.—Despite the poor start of the March quarter, Western Union in its fiscal year to December 31 had a highly successful year. The system was under Government control during seven months of the late fiscal period. The forthcoming annual statement, therefore, will combine Government rental up to August 1, with actual operating results for the last five months.

The figures of monthly gross and net show that up to November 30, Western Union gross receipts increased at the rate of $15,000,000, or about 18%, of which 40%, or about $6,000,000 was saved for net.

The March quarter was poor, so poor, in fact, that the company did not fully earn its Government guarantee. The net profits of $1,890,000 were nearly 55% less than in the same quarter of 1918. On March 31 a 20% increase in telegraph rates was ordered. The effect was instantly apparent, April net of $2,289,771 comparing with $942,309 in March.

As prospects stand, it seems as if the actual operating results for 1919 would show 18 to 19% for the $99,786,727 capital stock. These figures may be changed somewhat by variations in the amount charged to depreciation and also by the increase in salaries and wages which were ordered shortly after October 15 last.

Western Union has handled its labor problem with great skill and tact. It has dealt justly with its employees, has repeatedly advanced wages, the 1918 increase alone amounting to $10,600,000. The advances ordered in October last involve another $5,500,000. In three years Western Union has given at least $20,000,000 additional compensation to its employees. The open handed attitude which the company has consistently preserved has had the entirely natural effect of keeping the labor union idea out of its ranks. The 1919 attempt to unionize the company was so signal a failure that it is not likely to be soon forgotten.

Perhaps the most significant single development in Western Union's business during the war was the big jump in its cable business. And the heavy war gain has been held, contrary to the opinion entertained shortly after the armistice that a slump in cable earnings might logically be expected.

It seems an entirely safe assertion that the war has permanently endowed Western Union with a 30% to 40% increase in cable earnings.

In fact, the cable side of the company's business is likely to be sharply accentuated. The company

will build a line to the Barbadoes connecting there with cables running down the east coast of South America. The practical effect of this physical expansion will be to tie South America to the United States by a modern, efficient system of cable transmission. But the company is not likely to stop with east coast connections. It plans to own its own cables down the west coast. Such expansion would be in line with the international trade horizon of American business leaders. The singular provincialism which, prior to the war was satisfied that American goods should be carried in foreign bottoms and American cable messages conveyed over foreign owned and controlled cables, has happily ended.

Western Union has $15,000,000, or more of invested funds in its treasury. The building of South American cables, therefore, contains no financing problem. The company will have no occasion to lose the self-contained nature it has possessed for so many years.

COLORADO AND SOUTHERN.—The Colorado and Southern, during 1919, has made a record of earnings that can be equalled or surpassed by very few roads. For the first eleven months the entire system reported gross revenues of $21,980,322 and net operating income of $4,266,171, as compared with $18,729,314 and $3,983,131 respectively, in the same period of 1918.

The 1918 actual earnings were equivalent to about 6.70% on the company's $31,000,000 of common stock after allowing for the 4% dividends on the $17,000,000 total of first and second preferred stock. This compares with a balance for the stock under the Federal guarantee of only a little more than 3%. On the basis of the eleven months results, however, the indicated common share earnings for 1919 would be about 7.5%. The Colorado and Southern, therefore, has earned a surplus for the Government during each of the two years of Federal control.

Indeed, the progress made during the last five years has been remarkable. Any railroad that in this period has actually increased its earnings available for dividends is entitled to some consideration. In 1914 and 1915 this company failed to earn its preferred dividends. In 1916 the balance for the common came to 4.74%, jumping to 9.32% in 1917, 6.70% in 1918, and indicated earnings of about 7.50% for 1919. In other words, in the last four years the average annual percentage for the common amounted to just about 7%. In 1915 gross was only $14,000,000, while in 1919 gross will probably be about $24,000,000, an advance of over 70%. As is the case with the general run of railroads operating expenses have increased a good deal. The operating ratio in 1916 and 1917 was around 62%, jumping to 75% in 1918 and about 80% in 1919. It is, therefore, the splendid improvement in gross which has been responsible for the good showing in net.

Of the company's $31,000,000 of common stock, $23,657,000 is owned by the Burlington, leaving a floating supply of only a little more than $7,000,000, and there is only $17,000,000 of preferred. The small amount of stock may account for the lack of activity market-wise, although the current earnings and the possibilities for betterment under same railroad legislation would seem to make the shares deserving of more attention than they receive.

WORTHINGTON PUMP.—Worthington Pump has now plainly emerged from its period of war prosperity. The carryover of war business into 1919 was sufficient to give the company unfilled orders on January 1, 1919, of $26,000,000. The result was that the six months to June 30, 1919, were a half year of remarkable earning capacity. There was a considerable falling off in the volume of production during the second half year. At the same time it is probable that net profits before taxes in the fiscal year ended December 31 last were not far from 50% on the $13,000,000 common stock. This was after deduction of preferred dividends. Just what earning figures for the junior shares may be disclosed in the coming annual statement is a matter that will be determined by the reservation for taxes and charges for special depreciation. At the same time, it is difficult to see how the actual figures can fail to show common share profits somewhat larger than the 19% confessed to in the 1918 annual statement.

The 1920 outlook for Worthington Pump is by no means as flattering as it was a year ago. The company has carried over into 1920 less than 50% of the total of unfilled orders it had at the start of 1919. Consequently, while 1920 is likely to be a fair year, the broad statement is correct that the period of $45,000,000 gross business and a manufacturing profit of 30% has apparently ended.

Worthington Pump, however, needs but $1,000,000 in round figures to cover its two preferred dividends. Consequently, on a $20,000,000 gross business and a manufacturing profit of only 15%, the company could still show 15 to 16% on its common. Even after taxes, this earning capacity should have a balance sufficient to justify a common dividend.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—In the midst of the present distressing situation there are one or two thoughts that might be suggested to bring some comfort. If the present liquidation means anything, if the stock market is carrying out its usual function as a barometer of industrial conditions, it means that there must follow a liquidation of commodities. If, as producers, or interested in producing companies, our margin of profit is to be reduced, at least as consumers, we may be reasonably sure that before long our expenses will be less. This may seem like rather cold comfort, yet it was evident that a point had been reached where further advances in price were of benefit to few, if any, and a distress to many. The "fool's paradise" about which we have been hearing so much was beginning to seem like the other thing; it was only a question of time when the deflation process must set in and while most unpleasant during the operation, the final result will be a far more healthy condition.

As a matter of fact, while the whole market at a time like the present has a very weak appearance, it is noticeable that some stocks offer far better resistance than others; those catering to luxuries and representing commodities which enjoyed the greatest inflation during the war period are the worst sufferers. These stocks, together with those that will have to meet foreign competition, and which have unduly large inventories will, naturally, be under the greatest pressure. By no means, however, do all stocks fall under these classes. There are plenty which represent commodities which, though perhaps still high in price, are in great physical shortage and these must continue to command good prices.

Such stocks, and those of companies able to earn good returns on a normal margin of profit, are essentially cheap, though they may suffer to a certain extent together with the rest.

The railroad situation is an enigma. A return of 5½%, which seems likely to be agreed on, figured on almost any kind of valuation would mean large returns on present prices. On the other hand, there are extremely few railroads that, under present conditions, could individually earn such a return. Federal operation has been, as it always must be, extremely wasteful. There is no doubt that, provided anything like normal service could be secured, the railroads are today greatly over-manned. The adjustment problem here is a severe one, yet if disaster is to be averted, it must be worked out.

If one will but turn to the other side of the shield, there are plenty of encouraging factors. A gain in a month of over 1,000,000 tons in the unfilled orders of the Steel Corporation, bringing this figure up to the highest level in two years, shows plenty of business ahead for this industry. The undeniable shortage of railroad equipment of all kinds means many large orders for those companies when railroads are again in a position to place orders. Such changes as there have been in dividends have been chiefly upward. These, to be sure, represent past profits, yet they would scarcely have been ordered at such a time unless there were good prospects of maintaining them. A somewhat firmer market for Liberty Bonds may be significant as forecasting a return to saner investment and a better bond market.

It is useless at such a time to attempt to lay down any general rule. More suddenly than almost any one expected, the readjustment to a peace basis has set in and the market seems intent on making a thorough job of it. While valuable as a barometer, it is also to be remembered that the market has a habit of going to extremes in both directions. We still do not believe that values are to be swept away. The important thing is to study closely the position of various commodities and select the securities of those companies representing strong commodities able to withstand competition and which are themselves in sound condition.

INTERNATIONAL PAPER.—The common stock of the International Paper Company has attracted a good deal of attention in this market because, in the face of what has been, unquestionably, very heavy realization of many securities, it has at all times maintained a firm front and, today, at 75, is within 13 points of the highest price it has ever touched. This price compares with about $40 a year ago this time.

For a stock to show such strength during a large decline in such a market as we have had for the last two weeks is most unusual. As a matter of fact, there is a basic reason for this strength. Papers of all kinds, and particularly newsprint, is a commodity that, like sugar or residential and industrial buildings, is in actual physical shortage. There can be no question under these conditions of forcing the liquidation of a line held by speculators on borrowed money, as may be true of some commodites, for the simple reason that such a condition in the case of paper does not exist. On the contrary, the company has only just closed its contract for newsprint for the first quarter of 1920 at a considerable advance over previous prices.

It will be recalled that, under Government regulation, the price of newsprint was placed at $62 per ton in April, 1918; later this was advanced to $72.65 and again to $75 per ton. This price was in effect throughout 1919. Of the company's total production in 1918 of 472,000 tons of paper, about two-thirds

was newsprint and this two-thirds of production, or about 314,000 tons, was responsible for about one-half the company's profit which, in that year, was a little over $5,000,000.

In 1918, therefore, it is safe to say that the company did not average over $70 per ton for its newsprint, so that the recent price is an advance of $20 per ton. On the 300,000 tons of newsprint production, this advance would, therefore, theoretically add something like $6,000,000 to its revenue.

As a matter of fact, no doubt a considerable portion will be taken up by increased prices. It was only last May that a new wage scale added, approximately, $1,000,000 to the payroll. If we assume, however, that two-thirds of this is carried to net profit, this item alone would be equivalent to an additional $20 per share. Thus there are foreshadowed the possibilities of earnings this year in the vicinity of $40 per share on this stock.

As a matter of fact, even this does not measure the full possibilities as the company should increase its output this year, having again in commission its plant at Niagara and, possibly, before the end of the year, a portion of its new plant at Three Rivers, Canada.

In the three years to the close of 1918, the company earned a total profit for the common stock of $74 per share, none of which was distributed and, presumably, earned about $25 last year, a total for four years of nearly $100 per share.

From a manufacturing standpoint the company is in a very strong position, controlling as it does its own raw materials, its timber holdings being very much the largest under any one management. In short, the company has always had a very large asset value and now the turn in economic conditions makes it probable that, for some years to come at least, it will be able to convert these assets into earnings at a very satisfactory margin of profit.

HUPP MOTOR CAR.—The common stock of this company has recently been listed on the New York Stock Exchange and has just paid an initial quarterly dividend of 2½%.

The Hupp Motor Car Corporation was organized in 1915 succeeding the Hupp Motor Car Co., which had been in existence since 1908. It also acquired the American Gear & Manufacturing Co., a producer of automobile axles. Plants are located at Detroit and Jackson, Michigan and Windsor, Ontario. Present capitalization consists of $959,100 of 7% cumulative preferred stock, par $100 and $5,192,100 of common stock, par $10.

The net earnings available for the common stock and the output of cars have been as follows during the past four years:

Year to June 30	Net for Common	Per Share	Production
1917	$179,925	$ .34	11,293
1918	745,138	1.43	9,544
1919	456,573	.87	17,442
1920 (5 months)	1,086,755	2.08	24,000 (estimated for year)

Up to the past year the company had never made any very remarkable showing of earnings for its common stock. The fiscal year ended June 30, 1919, saw a material increase in output, but inasmuch as that period had to absorb the losses due to the readjustment from a war to a peace basis, it was not until the current fiscal year that the company had an opportunity to show what it could do under favorable conditions. Earnings for the five months to November 30 were at the annual rate of just about $5 per share as compared with present dividend requirements of $1 per share. The output, too, for the full 1920 year is estimated at 24,000 cars, or 2½ times the output in 1918.

Of course the period embraces probably the most prosperous period that the motor industry has ever enjoyed, and it would hardly be safe to figure that earnings could be maintained at that rate. There is, however, every reason to believe from orders on hand that the 1920 year will make a remarkable showing.

According to the balance sheet for June 30, 1919, Hupp Motor had a net working capital at that time of about $2,720,000, and a net asset value for its common stock, disregarding good will, trade marks, etc., carried at $3,858,920, of approximately $6 per share. With $1,000,000 surplus earnings from June 30 to November 30 the present asset value of the common is probably close to $8 per share.

POSSIBLE RAILROAD EARNINGS.—The railroad bill as reported back from conference by the Senate and House Committees provides for a fixed return for two years equivalent to 5½% on the property valuation of the individual railroad companies. After two years it is provided that the Interstate Commerce Commission shall grant rates which will permit the railroads to earn 5½% on their property valuation.

The actual value of the property is a thing that cannot be definitely determined until the Government valuation now being made is completed. Until this valuation is made the 5½% return will presumably be figured on the property investment accounts of the roads themselves.

In the following table we have endeavored to estimate the earnings available for the common stocks of some of the most important railroad companies on the basis of a 5½% return of the property valuation.

Practically all of these roads show a possible earning power much in excess of dividend requirements. Probably the actual cost of reproduction today of the American railroads as a whole would greatly exceed their book values. Unquestionably this is the case with the strong systems, although there has perhaps been a natural tendency on the part of some of the weaker roads to inflate the valuation of the property.

This might account for the relatively small earnings estimated for the standard roads, and the relatively large earnings for the weaker companies:

Railroad	Book Value Railroad Property	5½% on Property Valuation	Balance after all Charges	% on Common Stock	Present Dividend Rate
Atchison	$691,600,000	$38,038,000	$26,118,000	9.00%	6%
Atlantic Coast Line	189,100,000	10,400,000	7,560,000	11.00	7
Baltimore & Ohio	697,600,000	37,100,000	20,500,000	11.90	—
Boston & Maine	200,000,000	11,000,000	3,100,000	7.20	—
Chesapeake & Ohio	321,000,000	17,600,000	9,100,000	14.50	4
St. Paul	646,000,000	35,500,000	5,600,000	4.80	—
Rock Island	348,000,000	19,140,000	8,800,000	7.00	—
Chicago-Northwestern	421,000,000	23,200,000	14,400,000	8.70	7
Erie	477,000,000	26,200,000	5,600,000	2.60	—
Great Northern	535,000,000	29,500,000	20,900,000	8.30	7
Louisville & Nashville	292,000,000	16,000,000	8,700,000	12.00	7
Lehigh Valley	144,000,000	8,000,000	3,300,000	5.50	7
Missouri Pacific	355,000,000	19,500,000	9,600,000	7.20	—
New York Central	1,036,000,000	57,000,000	25,700,000	10.30	5
New Haven	475,000,000	26,100,000	7,600,000	4.80	—
Norfolk & Western	280,000,000	15,400,000	10,500,000	8.00	7
Northern Pacific	564,000,000	31,000,000	21,000,000	8.40	7
Pennsylvania	1,052,000,000	57,800,000	36,000,000	7.20	6
Pere Marquette	110,200,000	6,000,000	4,100,000	6.40	—
St. Louis-San Francisco	342,000,000	18,800,000	5,600,000	10.20	—
Southern Pacific	676,000,000	37,200,000	19,200,000	6.30	6
Southern Railway	474,000,000	24,000,000	11,100,000	6.70	—
Union Pacific	676,000,000	37,200,000	33,800,000	13.40	10
Wabash	210,000,000	11,500,000	6,700,000	4.50	—

UNITED STATES INDUSTRIAL ALCOHOL.—United States Industrial Alcohol is one of the industrial issues that has felt severely the brunt of the liquidating market. The present quotation is just about half the high price seen during the war period and it is today selling at a lower figure than at any time since 1915.

Probably the chief reason for this is that this is one of the enterprises which before the war was a very indifferent earner and it is felt that with a return to peace conditions its earnings may again revert to very low figures.

As a matter of fact, there is considerable basis for this opinion in the statement for the six months ended June 30, 1919. As against earnings in the year 1916 of $4,884,000, in 1917 of $7,108,000, and in 1918 of $6,750,000, the profit for the first half of 1918 dropped to $940,000. On the 240,000 shares of common stock now outstanding this would be a return, after deducting preferred dividends, at the rate of but $6 per share. Moreover, while the profits during the war were very large, these were used altogether for plant expansion—the property account rising from $17,000,000 at the close of 1914 to $39,000,000 by the close of 1919.

As a result the company has at all times been deficient in working capital. At the close of 1916, current liabilities exceeded current assets by $1,250,000. At no time during this period has this item been in excess of $2,500,000 and the middle of last year it was less than $1,000,000. Presumably, however, the $8,400.000 proceeds from the sale of 120,000 shares at 70 in the latter part of 1919 were used to bolster up this item, so that in this respect the company should today be in a fair position.

The officials have appreciated that theirs was a business which would be subject to severe readjustment with the ending of the war demand for alcohol and have developed their product—alco gas.

It can be quite definitely stated that this has been demonstrated to be a commercial success. It will surprise a good many to learn, however, as, indeed, it has surprised the officials themselves, that so large has the demand for industrial alcohol continued that the plants have been kept working full capacity on this, as there was a larger profit in it than in the alco gas; consequently, the latter has not been pushed to the extent that it otherwise would have been.

As a result of the policy of the last few years the company has at least a large manufacturing ability —profits that have gone back into the business for this purpose in the last four years being equivalent on the present capitalization to about $65 per share. In addition to this, the amount raised by the sale of stock last fall would be equivalent to $35 on the present capitalization, making the total of earnings and new money invested in the proposition about $100 per share.

Within a few days the directors will meet for dividends and the action taken at that time will no doubt afford a good test of recent earning capacity and confidence in the future.

AMERICAN OIL ENGINEERING.—It was but four months ago that this proposition was publicly offered. As the name implied, and as stated at the time, this company was formed on a very

different basis from the usual oil enterprise, the idea being that there were opportunities in the oil business to obtain a very substantial profit without taking the usual risk.

To carry out this idea has naturally involved the examination of a great many propositions submitted and it may be stated that over one hundred different projects have been submitted and rejected. Meantime, from its engineering, construction and reporting work, it has been able to cover expenses with a satisfactory margin.

Now the company has taken up an enterprise that conforms to the idea of this organization and has purchased, on advantageous terms, a going proposition of demonstrated value, in Stephens County, Texas. The property has one well completed, with a present daily production in excess of 1,500 barrels; another is nearing completion and three more will be drilled immediately. This grade of oil is now selling for $3.25 per barrel. The property is of sufficient size to support a number of additional wells. It is served by an established pipe line, with capacity to handle the entire production.

It may be stated that the American Oil Engineering already has been offered a very substantial premium over the price paid for this property. At the present time it has under consideration several additional projects with the promise of unusual attraction.

UNION OIL COMPANY.—Undoubtedly one of the defects of many of the recent numerous flotations, particularly in oil, has been a lack of financial strength. While, no doubt, a good many companies have had quite valuable property holdings, either actual or prospective, many have been without sufficient resources to bring out their full possibilities.

In contra distinction to this is the fact that the Union Oil Company of Delaware began business last September, with over $14,000,000 in actual cash, and even after paying for additional holdings in properties in which it was interested, it had a balance in cash and cash assets at the close of the year of $13,500,000.

There is, perhaps, no more remunerative form of investment of funds today than in providing facilities for the distribution and marketing of oil and the fact that such a large sum was provided will give an idea of the possibilities in this direction that the Union Oil Company enjoys. A good part of this amount will be put into tank steamers, of which there is still a great shortage. Two 10,000-ton and two 12,600-ton tanks have been ordered, which will be delivered the latter part of this year and the first part of next. This will call for, approximately, $9,000,000. The return on this investment promises to be very large.

Another element of strength to be considered is that the great bulk of the land holdings of the Union Oil Company of California, the chief subsidiary of the Delaware corporation, are not in Texas, where there has recently had to be considerable readjustment of ideas as to value but are in California, where the yield per well is high and the flow is persistent.

Union Oil of California has just completed a most successful year; its net earnings in 1919, after all charges—including depreciation and taxes—were, approximately, $11,500,000, as against $6,000,000 in 1918.

Union Oil of Delaware's proportion of these earnings, plus its estimated income from its other properties for the current year, should alone amount to, approximately, $3 per share, without counting on any revenue from further development or from the reinvestment of its large treasury surplus.

The cash balance of the Delaware Corporation is alone equivalent to about $10 per share, so that, at current prices, its very large property holdings are valued in the market at but $26,000,000. These holdings, exclusive of the recently acquired Commonwealth Petroleum Corporation, were conservatively estimated at the time of incorporation to have a value in excess of $50,000,000.

AMERICAN-LA FRANCE FIRE ENGINE CO., INC.—Although it has become customary, and with good reason, to look rather askance on newly listed securities, it would seem as though that factor itself should not condemn any proposition unheard.

One of the more recently listed securities that at least seems to warrant some consideration is the stock of the above company. Its capitalization consists of $2,000,000 7% preferred stock and an authorized issue of $4,950,000 common stock, par 10, of which about 200,000 shares are outstanding. Approximately 100,000 shares are reserved for the conversion at par of the remaining issue of $1,000,000 6% convertible notes.

In its present form, the proposition dates from 1908—the present company having been incorporated in 1912. There are a number of factors in its favor. In the first place, it is strong financially, with no floating debt; on the contrary, it is reported to be loaning money in Wall Street. It has no large inventory subject to depreciation and, moreover, manufactures a product that does not come into competition with the same thing manufactured abroad.

Last year the company did a business in excess of $6,500,000 and showed a net return of, approximately, $600,000. This would be equivalent to about $2.30 per share after deducting preferred dividends. Dividends on the common stock have been very consistent, beginning at 4%, rising to 6% and 8%, and recently increased to 10%, or $1 per share.

The company is said to have orders on its books for an unusually large amount of business.

We have a few copies of "Stock Fluctuations" covering the transactions of the local market for 1919, which we should be pleased to send to anyone interested.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 845 February 20, 1920

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THE GENERAL MARKET.—It is doubtful if there has ever been a time when there are so many conflicting influences. On the constructive side is the great factor of the world-wide demand for goods; the steel mills are generally booked up to capacity for the balance of the year; textile machinery concerns even further ahead; such articles as sugar, paper, railroad equipment are in great physical shortage; oil, which was heavy six months ago, today is being produced in less quantities than consumed, and with the great increase in oil-burning equipment, both afloat and ashore, a strong market for this seems inevitable. All this means a continued demand at satisfactory prices and assurance of employment. In short, a continuance of earnings for, perhaps, the majority of industrial concerns.

But turning to the other side are adverse factors with which by now all are well acquainted. First, the over-strained condition of credit; the shortage of capital throughout the world. Secondly, as a result of the unbalanced trade movement, the precipitate drop in foreign exchange, with the threat of throwing back on our hands many of the goods for which we have counted on a foreign market. There is the tremendous effort required to bring outlay, both national and individual, not only within income but within the actual means of supplying it. In short, the very great need of readjustment to more nearly a normal basis and readjustment is usually a synonym for temporary unsettlement in value.

The drop in foreign exchange is already having an effect, particularly on foodstuffs, which is individually the largest item. From an average of well over 200,000,000 pounds of pork products in the first eight months of 1919, the last four months saw a drop to 120,000,000; hence, there has been a sharp drop in price and discontent among the farmers. Now we would all like to see our provision bills reduced, but bear in mind that the agricultural purchasing power is, normally, the greatest of any single group and if the price of the farmers' product drops more rapidly than things he buys, it means a lessened demand from that source and, consequently, a sharp drop in the things supplied to him. This is not an argument for a continuance of high prices; on the contrary, if the process can be worked out gradually, no harm will be done, but much good; but too sudden a readjustment is to be greatly deprecated.

We cannot but feel that at any rate we have seen the worst of the price advance and also of the drop in foreign exchange; so many instances are coming to one's attention of foreign goods coming in and at prices lower than obtainable here, that the temptation to purchase these goods in preference to those of domestic manufacture will go far toward restoring a normal balance of trade. One item that has not received much attention that will help still further will be the expenses this summer of American tourists. This used to be figured at around $300,000 000 and this year will probably be at least twice that.

A steady reduction in our credit balance of foreign trade would be a good thing all around and let it be remembered that it has a good way to go before we need feel any real alarm. As against a credit balance last year of four billion dollars, the best year before the war showed a credit balance of about $600,000,000. There is a long distance to go between these two points. A reversion to a more normal balance would, as a matter of fact, make far more real the enormous credit balances of recent years which, at the moment, are uncollectable.

It is further to be hoped that another effect would be to lighten the burden of our debit balance in our trade with countries other than Europe It is not generally appreciated that while the European balance was four billion dollars in our favor, which at the moment is mostly on paper, we had a debit balance with countries other than Europe of $400,000,000 and this has to be paid; hence, we see a continuous stream of gold to South America and Asia. In the last eight weeks over $100,000,000 dollars in gold have been exported, which could ill be spared, reducing, as it does, by so much the foundation for credits.

At last the market has awakened to the fact that constructive action is being taken on the railroad question. If, as some public men have remarked, this will be the crucial test for the railroads under private management, it is the merest justice that it shall be made under fair conditions. The railroads are being handed back to their owners with their payroll enormously expanded; with cost of supplies increased at least 100%. There has been no such corresponding increase in rates; in fact, relatively speaking, rates have declined. It can easily be demonstrated that in 1919 only 2.4% of the total cost of commodities was consumed by transportation, as against 3.6 in 1914. The idea that an increase in rates will take billions out of the pockets of the public is a fallacy. A reasonable increase will add the merest fraction to the real cost. It would be only an excuse, and a poor one at that, not a real reason for any further general increase in costs. Above all, it is necessary that railroad credit should be restored. Instructions on this point to the Interstate Commerce Commission should be specific. Grant this and the railroads may be confidently counted upon to look out for themselves.

Marketwise, we cannot but feel that the heavy liquidation since the first of the year has discounted much of whatever slackening in business there may be. On the basis of intrinsic values and what may be reasonably expected in the way of earnings, many securities, perhaps now the majority, are essentially cheap. Yet here comes in the problem of buying. There is much less than the normal supply of investment funds; it is disappointing that with all this liquidation there should have been no improvement in the banking condition. Any upturn must be limited because it is out of the question to increase loans for this purpose, no matter how cheap stocks may be.

It seems now as though this situation could not be remedied until there is some liquidation in commodities, or a further increase in actual wealth through new production, especially from crops.

Under these conditions we consider it, frankly, useless to look for any such upward movement as we had in 1919, but this is not saying that those with the funds cannot well afford to buy. There are bound to be at least some specialties whose earning power is so great as to attract such capital as is available.

UNITED VERDE EXTENSION.—There has been no mining development of recent years that has brought anything like the actual profits from mining in proportion to the original amount of money risked that the United Verde Extension has. Wherever one goes in the West one finds people with substantial income, in some cases their only means of support, from their holdings in this stock, which stands them but very little money. It is no wonder that it is one of the most popular and closely held issues. It is consequently all the more gratifying that in such a year as 1919, when—owing to a variety of causes earnings fell away severely—it was still able to maintain a substantial rate of dividends. Even after dipping into surplus for $2,500,000, the company had cash and cash assets at the close of the year of about $4,000,000. This deduction from surplus was more apparent than real, as it was balanced by a charge of approximately the same amount to depletion and depreciation; in other words, so far as the cash position of the company is concerned, dividends were just about earned.

The chief impediment to production last year was, of course, the strike which tied up the property for four months, so that the company mined but 96,000 tons of ore, as against 133,000 in the previous year.

As is apt to be the case after a proposition gets well under way, the grade of the ore has dropped. There is all the more reason for this in this case as the company—with its own smelter—would, naturally, not mine as high a grade of ore as it would sending it to a custom smelter. The yield, consequently has fallen from 550 pounds in 1917 to 420 pounds in 1918 to 310 pounds in 1919. It should be possible, however, to maintain this last figure henceforth, as this is the average of the 571,000 tons of the ore reserves.

The really important feature of the year is that, with all its handicaps, the company was able to produce copper at a little under 10 cents per pound This figure, to be sure, did not include depreciation, depletion or taxes, but even with these added it should be able under present conditions, to make a substantial profit.

The statement is made that the drift on the 1,500-foot level is about to enter the ore body. We have reason to believe that this has recently been entered and while the ore is slightly lower than in the upper levels, it is still of excellent grade. The 1,600 and 1,700-foot levels will enter the ore body in the course of the next few months.

UNITED FRUIT COMPANY.—While it was generally anticipated that United Fruit would show a new high level of earnings for 1919 the actual figures must have come as a surprise to all those not intimately familiar with the company's affairs. The principal items for the last four years have been as follows:

	*1919	1918	1917	1916
Total income	$38,386,308	$24,830,506	$17,592,391	$14,032,133
Interest on bonds	206,685	839,509	867,567	1,399,835
Taxes	18,016,106	9,896,450	3,686,869	689,146
Balance net income	20,163,517	14,094,046	13,037,955	11,943,151
Dividends	6,289,562	4,025,320	3,903,392	3,415,468
Year's surplus	13,873,955	10,068,727	9,134,563	8,527,683
Profit per share	$40	$28	$26.17	24.04

*For 15 months.

While the first thing that would strike one in glancing over these figures is the large earnings for the past year, there are other features equally worthy of notice that are, perhaps, not so prominent. For one thing we would call attention to the decline in the interest item. The virtual elimination of the funded indebtedness has been one of the great benefits of this period. Secondly, it will be noted that during these years the company has earned a total of $59,000,000 for the stock, of which but $18,000,000 have been paid out in dividends; the balance of $41,000,000 is alone equivalent to $80 per share on the stock.

The United Fruit Company's business might be, roughly, divided into three departments—steamship, fruit and sugar. As to the steamship division, it is only reasonable to suppose that its earnings may be somewhat less than they have been of recent years. The fruit earnings, however, should continue very large.

It is, however, as a sugar producer that perhaps the greatest benefits may be anticipated in the uext few years. From this department the company has not, perhaps, received the fullest benefit that it might have.

In 1918 the company for the first time did not report separately its earnings from the sugar division and this policy was continued in 1919. Inasmuch as it is understood to have a $35,000,000 investment it would probably have been interesting to know its individual results.

In spite of the high prices of sugar there has been almost no net increase in production the last two years, the round figures for the two plantations having been as follows:

1917	242,861,000 lbs.
1918	280,553,000 "
1919	252,645,000 "

It is intimated in the report that this situation is appreciated, and that with a large amount of additional acreage planted in cane the output of the mills should show a substantial increase. As a matter of fact, we might add that it seems to us, under present conditions, the United Fruit has four distinct advantages over the ordinary Cuban producer of sugar. First, it is almost wholly an administration proposition; consequently, its cost for cane should not show so large an increase as those companies that are chiefly dependent upon colonas. Secondly, having discontinued its previous selling contract, we understand that it has been selling its sugars only as made and refined, with the result that it should obtain a very high average price. Third, it is not dependent upon the public railroads of Cuba, whose service has been very unsatisfactory. Fourth, it has, in large part, its own fleet for the transportation of sugars which is one of the most difficult problems in this business.

It would seem not unreasonable to suppose that the United Fruit Co. might this year make a profit of $12 per bag on 1,000,000 bags of sugar, which alone would be equal to $25 per share on its stock.

Perhaps the best idea of the remarkable improvement in this company's position might be had by a comparison of the balance sheet—not with the year previous but going back five years. This comparison we make as follows:

	1919	1914
ASSETS		
Fixed assets	$78,251,491	$63,179,801
Steamships	12,961,852	15,999,632
Investments	24,373,944	——
Current assets	29,081,071	7.617,073
Deferred assets	3,016,043	2,070,902
	$147,684,401	$88,867,408
LIABILITIES		
Capital stock	$50,316,500	$36,619 300
Funded debt	1 045,000	33,305,956
Current liabilities	6,503,547	4,083,517
Deferred liabilities	2,161,449	1,266,230
Tax reserve	15,534,447	——
Other reserves	23,013,735	——
Profit and loss	49,109,723	13,592,405
	$147,684,401	$88,867,408
Net quick assets	26,689,000	3,634,000
Book value per share	$248	$138

The outbreak of the war caught the United Fruit in rather an unsatisfactory position, with relatively a heavy bond indebtedness. How thoroughly this lesson was taken to heart may be seen from the above. As a matter of fact, there was really a greater improvement as respects working capital than would be apparent from the above figures as a good part of the funded debt of 1914 was approaching maturity and therefore in the nature more of a current liability. This has now been virtually entirely eliminated.

We would also call attention to the fact that the company's steamships are carried at a book value of $3,000,000 less than five years ago. There has been no such relative shrinkage in the tonnage—the figures being 188,000 tons at the close of 1919, as against 200,000 tons at the close of 1914.

Finally, it might be observed that with a profit and loss surplus approximating $100 per share, stockholders may well look forward to a distribution in some form, even in excess of the $12 rate recently established. This calls for but $6,000,000 a year, as against earnings of over twice that amount in each of the last four years.

BALDWIN LOCOMOTIVE WORKS.—While earnings of $21.88 per share for the common stock of the Baldwin Locomotive Works for 1919 make a very satisfactory showing, perhaps the most importance attaches to the strong financial position of the company as revealed in its balance sheet.

Earnings of $21.88 for last year compare with $21.76 in 1918, $34.52 in 1917 and $20.47 in 1916. The income accounts for the three years from 1916 to 1918 inclusive, contain extraordinary charges for depreciation and amortization, totalling over $11,000,000. In a certain sense these charges represent what ordinarily might be considered concealed profits, so that really in the past four years the company has put back into property over $30,000,000, or the equivalent of better than $150 per share for its $20,000,000 of common stock.

The gross sales during 1919 amounted to $84,307,776, as compared with $123,179,251 in 1918 and $98,263,865 in 1917. It must be remembered that those two years embraced the period of greatest war production, while 1919 represented a period of adjustment. In no previous year did the volume of business approach that of last year. At the present time the plant is running about 75% of capacity chiefly on foreign orders. Incoming orders exceed those of a year ago and it is expected that domestic orders will assume considerably more importance with the forthcoming return of the railroads to private operation under conditions which should permit expansion in facilities and assure their credit.

The tax deduction in 1919 amounted to only $2,000,000 or $10 a share on the junior stock issue, as compared with $6,500,000 or $32.50 a share in the preceding twelvemonth.

The balance sheet at the close of the year shows that if there was ever any water in the Baldwin capitalization it has now been thoroughly squeezed out. On December 31, 1919, the Baldwin plant was valued at $27,046,158, as against $43,766,499 at the end of 1916. Inventories were reduced from $19,456,363 last year to $10,565,621. The last item of good will, $899,299, has been wiped off. Two years ago $15,800,000 was written off for the same item. The working capital position compares as follows with that of preceding years:

	1919	1918	1917	1916
Current assets	$31,772,353	$40,508,237	$38,811,325	$27,107,882
Current liabilities	7,488,417	19,303,311	22,310,388	19,632,633
Net working capital	24,284,936	$21,204,926	$16,500,937	$7,475,249

The company also carries its investment the Eddystone Munitions Co. at $484,735. This subsidiary is now in process of liquidation and it is estimated that the Baldwin's interest in it is worth $2,407,264, leaving a net of $1,922,529, or the equivalent of $9.61 on the parent concern's common stock. Another of the Baldwin investments is the entire capital stock of the Standard Steel Works. The net profits of this company after all charges and dividends were $293,438, a sum which amounts to $1.87 per share for the Baldwin common.

The outstanding capitalization of the Locomotive Company now consists of $8,902,000 of bonds, and $20,000,000 each of 7% cumulative preferred and common stock. Allowing par for the bonds and preferred stock, the net asset value of the common would figure out about $142 per share. Last month a dividend of 3½% was paid on the common, being the first distribution since 1915. Presumably this places that issue on a 7% annual basis. Judging from the wonderful financial strength of the company and the favorable outlook for business in the next year or two, it would seem as though the shareholders might confidently look forward to larger payments in the future.

BUTTE AND SUPERIOR.—The progress of the Butte and Superior Mining Company during 1919 can best be visualized by a statement of its earnings by quarters. The record has been as follows:

First quarter (loss)	$116,379
Second quarter (profit)	210,226
Third quarter (profit)	300,283
Fourth quarter (profit)	566,984

The gain in the last quarter was even larger than these figures would indicate, as there was no item in this quarter for "metal inventory and quotations" such as obtained in the two previous quarters.

While this makes a total net profit for the year of $961,000, equivalent to $3.30 per share, it will be noted that practically all of this amount has been earned in the last six months. The earnings for the fourth quarter were nearly $2 per share, or at an annual rate of $8 per share, The earnings for this quarter were made on an average price for spelter of 8.22 cents per pound. Recently spelter has sold as high as 9½ cents and at the moment is quoted at 8¾ cents.

Attention should be called to the statement that "milling operations during the entire period were conducted with the use of more than 1% of oil with very satisfactory results."

Tbe above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 847 March 5, 1920

THE GENERAL MARKET.—The week's events have been of a constructive character. The passage of the Railroad Bill and the decision in the Steel suit have done much to clear the atmosphere. Although the market did not immediately respond to these developments, probably due to the tight money market—the big bug-bear in the situation—it is at the moment of writing beginning to do so in an orderly manner. It will be very much better all around if stocks are bought only as purchasers can well afford them; that is, without forcing a further strain on the banks. The industrial situation is becoming very uneven; some commodities have already shown quite a little drop. We believe this a healthy movement if accomplished in an orderly manner. We do not consider that the market has anything to fear from this tendency. It has been anticipated, and some liquidation of commodities will release very much needed funds. Moreover, with some lessening of the tension there will be a healthier labor situation. The element of competition will re-enter and it may be possible to get more nearly a day's work for a day's pay. The tendency toward lower prices, however, is by no means universal. There are some commodities, for instance, such as steel, oil, sugar and paper, that are in such physical scarcity that it is difficult to see how there can be any material decline until production has been greatly increased.

We find it difficult to be pessimistic on the situation because, in spite of some readjustment, perhaps some liquidation of commodities, it seems to us inevitable that American business, generally speaking, is going to be called on for all it can produce for a long while to come.

The stock market has surely borne its full share of whatever readjustment may be necessary. We must admit, however, that it is difficult to see how an extended rise is possible until there is an easier banking situation. This seems to us one really unfavorable factor and the one to be watched. As soon as there is any improvement in this respect, we should anticipate quite an extended advance.

SAVAGE ARMS CORPORATION.—As had been generally anticipated, the earning record of Savage Arms in its fiscal year to December 31 was the most favorable in its history. The balance for dividends of $1,512,423 was equal to $19.32 per share on the $7,748,000 common outstanding on December 31 last and compares with the three previous fiscal years as follows:—

Year to Dec. 31	1919	1918	1917	1916
Net profits for dividends	$1,512,423	$1,374,486	$1,495,119	$775,756
Preferred dividends	15,739	38,211	61,550	80,575
Balance	1,496,684	1,336,275	1,433,569	695,181
% Common	19.32%	16.07%	16.23%	7.72%

Such, at least, is the superficial record of share profits during the past four years. It should be observed, however, that in the 1918 year the net profits for $1,374,486 were after deduction of $6,460,237 for taxes against $519,698 in the year just ended. In 1917 the tax setup was $3,669,000. In 1918 Savage Arms reserved 82% of net for taxes, an apparently excessive amount.

One of the highly interesting phases of the company's development has been the determination of directors and management to cut down its capital obligations prior to the common. And of the common itself there has been extinguished $1,087,550 since December 31, 1916.

At one time Savage Arms had outstanding $1,500,000 bonds. These were all eliminated before the end of 1917. Originally there was an issue of $500,000 7% first preferred. The last $10,000 of this stock was bought in and cancelled during 1919. An original issue of $500,000 6% second preferred either by purchase and retirement or by conversion into common had by December 31 been reduced to $232,200.

Broadly speaking, since its inception Savage Arms has reduced its capitalization from $11,500,000 to $7,980,200, a cut of $3,519,800, or 30.5%. At present there are but $13,932 of charges precedent to the dividend balance for the common.

It is difficult to secure from the annual report itself a clear understanding of the apparently substantial decrease of $1,450,672 or 22.7% in net quick assets during the year. As of December 31, 1918, Savage Arms had $15,254,447 of current assets and current liabilities of $9,873,052, or a net working capital of $4,381,395 or $64 per share on the common above par for the then $270,700 of preferred stocks. The current liabilities included $7,917,618 of reserved for taxes and royalties.

During 1919 the company reduced its inventories and accounts receivable from $11,776,789 to $5,096,833, a cut of $6,679,956. It might naturally be supposed that so great a reduction would be followed

by some gain in cash. On the other hand, the $575,060 cash on hand December 31 was but about one-third of the December 31, 1918, total of $1,646,908. The reserves were, however, cut down from $7,917,618 to $3,222,635, a shrinkage of $4,694,983. It is impossible to escape the broad conclusion that in settling its numerous government contracts Savage Arms has charged into reserves very large sums which final liquidation of these claims may show were not needed. In that event there may be an increase of a very substantial amount above the apparent working capital of $3,930,723 on hand December 31 last.

Savage Arms is now running the Sharon plant night and day producing axles and frames for automobiles. The Utica plant is 33% taken up with sporting rifles, small arms and revolvers. It is trying to fill up the Utica works with automobile production. The 1920 outlook largely depends upon continued automobile buying. Two extra dividends of 5% each on the common, or substantially $775,000 in addition to the regular 6%, will be charged against 1920's income account, assuming no further extras are declared. To cover these dividends calls for $1,235,000. It will be decidedly interesting to watch 1920 operations and see if the company has been able to create a substantial peace time business for plants which actually cost $8,000,000 to $10,000.000 and which have been depreciated down to $5,249,779.

KELLY-SPRINGFIELD.—Kelly-Springfield enters its new fiscal year, 1920, with brilliant prospects. During a large part of the fiscal 12 months to December 31, Kelly-Springfield was able to fill but about 20% of its possible orders. And 1920 starts with a strong probability that there will be virtually the same divergence between demand and production.

When the new Cumberland, Md., plant is in operation, as it should be by fall, Kelly-Springfield can quickly double its present productive capacity. And when the new plant is fully tuned up and is going at full speed the company should be able to virtually treble its 1919 sales to a total of say $60,000,000.

Various dates have been unofficially appointed for the opening of the big Cumberland plant. Had things moved without any hitches, and had there been no steel strike, it is possible operations could have started July 1. It now seems more probable that tires will be coming through at Cumberland by October, which would give the final quarter of 1919 the benefit of a very material boost in output and consequently in net profits. One thing seems assured, the new plant will possess the most modern equipment and will enjoy certain advantages of low cost operation as compared with the present factories at Akron and Wooster, Ohio, and Buffalo, N. Y.

For many months Kelly-Springfield has been so behind in its orders for truck tires that it has at last been compelled to refuse to accept any new customers, confining its efforts to making deliveries to customers already on the books.

So far as its passenger car business is concerned 70% of these sales in terms of dollars represent shoes and inner tubes for cars above the $1,600 class. This is a class of automobile users which is far less likely to curtail automobile usage in a period of poor general business than the owners of the lower-priced cars.

Good judges of the tire industry believe that before 1920 is many months old some increase in tire prices must be ordered. At least they expect an advance that will cancel the cut in prices instituted in 1919. It is merely a question of time. With cotton fabric selling above $3 per pound contrasted with a prewar level of less than 50 cents and with the bulk of the cost of a tire in cotton fabric the necessity for some advances is becoming increasingly apparent.

There has been considerable diversity of method adopted in financial circles in figuring the common share profits of Kelly-Springfield. The brief income account presented in the annual reports shows earnings before income and excess profits taxes and in its balance sheet no specific reserve is set up for taxes. The company departs from the usual practice and charges this tax payment against surplus. Thus the surplus carried over into 1919 was charged $2,659,492 on account of taxes accruing against 1918 net profits. Taking the figures of net after taxes and preferred dividends we find that for the past four fiscal years earnings on the common have been as follows:—

	1919	1918	1917	1916
Dollars per share	$9.82	$7.65	$12.48	$9.72
Per cent. per share	39.29%	30.60%	49.92%	38.88%

In cash the company is now paying 16% or $4 per share in common dividends and 12% or $3 per share in common stock dividends. During 1919 $454,778 additional common was issued for this purpose, so that 1919 share profits are calculated on 214,400 shares of common against 196,000 shares the three previous years.

During 1919 working capital increased from $8,420,564 to $11,611,320 largely due to the July sale of $5,860,200 8% second preferred, a new issue. This money will eventually go into the Cumberland plant, but until required will act as a beneficial addition to working assets. For this reason the corporation closed the year free from floating debt and with only $670,197 current liabilities outside of Federal taxes.

AMERICAN LOCOMOTIVE.—Probably the most striking feature of the six months' statement of American Locomotive for the period to December 31, 1919, is the revelation of its exceedingly happy treasury position. At the close of last year the company had in its treasury a total of $32,765,000 of Government securities consisting of $25,800,000 of U. S. Certificates of Indebtedness, $5,985,000 Liberty and Canadian Victory bonds, and $980,000 United Kingdom three-year convertibles. As of June 30 last

the company had but $4,043,100 Liberty Loan bonds and $542,900 Canadian bonds. The moneys owed it by the U. S. Railroad Administration in payment of locomotives completed last year have apparently largely gone into United States Certificates of Indebtedness.

In keeping with the declining volume of its business American Locomotive has gradually liquidated its inventories. On June 30 materials and supplies and work in construction aggregated $10,859,000. On December 31 the total was $7,170,000.

The net quick assets at the close of the year were $35,686,011, a sum sufficient to offset the subsidiary bonds and $25,000,000 preferred stock at par and leave a balance of $8,754,011 or $35 a share for the common stock.

It is of interest to note that on its overturn of $20,630,000 during the six months the company operated on an average of just under 30% of capacity. And in spite of this low basis of operation it was able to show a manufacturing profit of 15.1% compared with 16.9% for the June 30 fiscal year when the gross volume of business amounted to approximately $109,000,000 compared with a $41,000,000 rate for the December 31 six months. This is evidence of a high degree of operating efficiency.

It is also worthy of note that American Locomotive carried over into the new year $7,862,157 of unfilled orders. At the time the six months' figures were issued it had booked $12,800,000 of additional orders so that it seems a fair assumption that in the six months to June 30 the company is assured of minimum gross business of $20,600,000, practically a repetition of the output of the six months just ended.

American Locomotive has now changed the date of its fiscal year from June 30 to December 31. Therefore the next annual statement to issue will cover the current calendar year, but the company will have presumably put out a six months' statement covering the period to June 30 next.

STOCK DIVIDEND POSSIBILITIES.—For some time past the financial community has been eagerly awaiting a final decision by the United States Supreme Court on the taxability under the income tax of stock dividends. During the boom of last year there were many rumors in connection with the leading industrial stocks that stock dividends would be in order provided the Court's decision was favorable. In view of the possibility that the case may be decided at almost any time now, we believe it may be interesting to examine the reports of some of the industrial companies that have issued their 1919 statements for indications of a financial strength which might permit the declaration of stock dividends in case such dividends are not to be regarded as taxable income.

In the following table we have attempted to show the estimated book value per share for the common stock at the date of the latest balance sheet, the surplus earnings per share after all dividends for the past five years, and the net working capital per share of common stock. In general, it would seem as though the companies with the largest asset value, surplus earnings and working capital per share, would be in the most favorable position for capital distribution. There is, however, a considerable difference in the bookkeeping methods of different corporations. In some cases good-will, patents, etc., are lumped with plant assets on the balance sheet and, of course, some concerns tend to overvalue and some to undervalue their assets.

As a general thing, it would appear that the equipments, steels, and sugars were in a good position financially to pay a stock dividend although whether or not any individual company will do so is likely to depend as much if not more upon the future outlook than upon asset values and past earnings:—

COMPANY	Estimated Asset Value Com. Stock	Five Years' Surplus Earnings Per Share After all Dividends	Working Capital Per Share of Common
American Car & Foundry	$204	$67	$123
American Locomotive	204	103 ②	142
Baldwin Locomotive	142	102	121
Bethlehem Steel	225	144	133 ④
Central Leather	173	78	222
Continental Can	93	52	43
Corn Products	171 ①	64	59
Crucible Steel	283 ①	172	114
Cuban American Sugar	284	237	135
Goodrich	72	70	93
International Paper	98	94 ③	81 ④
National Enameling	162 ①	48	38
New York Air Brake	160	74	33
Sears-Roebuck	108	60	58
Republic	224	93	86
United Fruit	248	89	53
United States Steel	235 ④	83	97 ④

①Includes good-will, patents, etc.
②4½ years to December 31, 1919.
③1919 earnings estimated at $20.
④As of December 31, 1918.

LACKAWANNA STEEL.—Lackawanna Steel in its fiscal 12 months ended December 31 performed approximately according to preliminary estimates. Up to September 30, the first 9 months of its fiscal period, the company had earned a dividend balance after deduction of interest, rentals, depreciation and taxes of $1,312,350, or about $3.72 per share on its $35,108,500 common outstanding. Only a very strong revival in activity in the final quarter could have enabled the corporation to show the $6 dividend fully earned.

But instead of the large expansion in earning power to which the improving prospects of last summer entitled all steel companies the corporation was quickly enmeshed in the steel strike. The effect of the steel strike was to cause a direct expense to the corporation of well over $1,500,000. This is shown by the fact that in the final quarter there was a deficit after charges, depreciation and taxes of $955,000. Indirectly through loss of profits on production it might have made it has been estimated that there was an additional loss in the last quarter of $2,000,000 to $2,500,000.

For its full 12 months, therefore, Lackawanna Steel earned a dividend balance of $1.02 per share, contrasting with $23.79 in 1918 and $45.89 in 1917. This is, of course, a very painful decline and is one more striking reminder of the part which the nation's steel industry played in the war and the length of time required to complete the transition to a peace basis. Lackawanna Steel earned in its March, 1919, quarter 3.44% on its stock after all deductions. But this was very largely the profits flowing from a cleanup of war orders. In the June and September quarters there was an actual stock balance of but $105,241. From this it can be readily appreciated how great a part a good December quarter would have played in enabling the full 1919 year to show a dividend balance of at least $6 per share.

The effects of the steel strike did not immediately pass with Lackawanna. During the strike period many employees moved away seeking work in allied industries when prospects of high wages and continuous employment were especially attractive. All through January the plants were consequently undermanned. And it took until the end of February to bring operations up to 80% of capacity. The month of March should be a good one and although the March quarter may show profits at a rate of less than 6% there is every reasonable assurance that the half year will show the $3 to be paid in dividends fully covered.

For Lackawanna Steel carried over into 1920, 248,405 tons of unfilled orders, an increase of 100% from the low point of 122,339 tons on March 31, 1918. Moreover, orders continue to gain and for some months there is an excellent prospect that unfilled orders will move upward.

Although Lackawanna Steel has been eminently successful in recent years in diversifying its product it should be a decided beneficiary of free railroad buying, especially heavy purchases of rails, the great need of which has been freely admitted for months. Any change in credit conditions permitting railroad financing will be reflected very clearly in the Lackawanna 1920 income account.

UNION TANK CAR COMPANY.—Union Tank Car Company is another of the Standard Oil group which recently decided to issue preferred stock. The company has outstanding $12,000,000 common on which 7% dividends were paid in 1919. The financing plan will take the form of the offering to present shareholders of $12,000,000 7% cumulative preferred or one share of preferred for each share of common.

The proceeds of this financing will pay for part of the cost of 5,500 new 10,000 gallon tank cars. Total cost of these cars will be $17,000,000, but $5,000,000 of this outlay is to be met from surplus earnings.

In addition, Union Tank Car paid off in February 15, $3,000,000 5% car trust notes, anticipating maturity by six months.

One of the interesting features of Union Tank Car Company is the exceedingly conservative figure at which its principal asset—tank cars—are carried. On September 30, 1919, Union Tank had 20,584 tank cars. These are carried on the books for about $20,200,000, or $980 per car. For its 5,500 new cars the company is paying an average of about $3,050 and is capitalizing them for $2,180 each on the basis of $12,000,000 new preferred. In other words, there is an apparent equity in the 20,584 cars it now owns of about $2,000 per car, based on replacement costs. This would mean $40,000,000, or $330 per share on the present $12,000,000 common.

Of course, no conservative corporation would think of writing up its book values on the basis of present inflated equipment costs. And as a matter of fact, the company is probably depending on its low book values for existing equipment to dilute the high figure at which the 5,500 new cars will be capitalized.

It will be noted that the $12,000,000 preferred shortly to be issued to finance the 5,500 new cars is exactly the par of the present common outstanding against the 20,584 cars owned on September 30 last. This is a forcible reminder both of exceedingly conservative capitalization and of the present high cost of new railroad equipment.

Union Tank Car Company in 1919 earned $30.60 per share on its common after taxes and depreciation. In 1918 the share balance was $14.80 and in 1917, $30.90. Net profits per car before taxes and depreciation have, of course, been unusually high for several years. Prior to 1914 they averaged in the vicinity of $140 to $150 per car per annum, or say 10% on book value. In 1918 they ran as high as $300. The company in buying 5,500 new cars at this time doubtless sees an opportunity to realize profits for the next two years that will amortize their cost down to something nearer normal figures.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 848 March 12, 1920

THE GENERAL MARKET.—It has been a long time indeed since the market has been favored with such positive constructive developments as have taken place in the last two weeks; the Esch-Cummings railroad bill; the decision in the Steel suit; the Income Tax decision and, finally, the railroad valuation decision, have followed each other with such rapidity that even yet their full significance has by no means been grasped. Psychologically, the tax decision has had the largest immediate effect. This is quite natural. Many, perhaps the majority, of the large corporations have reinvested in their business in the last few years profits equal to from 50 to 150% of what their shares are selling for in the market; in very few instances have their profits been capitalized. If these great sums have been wisely spent, they have added enormously to the companies' earning capacity. Clearly, these companies could well afford to capitalize a part of their reinvested earnings, with the prospect of being able to pay substantial returns on the increased capital. The plea that the Government will lose by this decision is apt to prove specious. Ultimately, this decision should make for much larger cash distributions and correspondingly greater basis for taxation. While it may be argued, and justly, that stock dividends do not increase anyone's wealth, nevertheless the final result is apt to be a greater cash income to the individual stockholder than if the stock dividend had not been declared. If a company is justified in capitalizing earnings by a stock dividend of, say, 100%, cash dividends of 5% upon twice the amount of stock is a truer declaration than 10% on half the amount, and less liable to attack. There is every reason, therefore, why the decision should be welcomed as a most constructive influence.

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The Steel decision does not inject anything so positive into the situation, but it does relieve American business from a fear from which it has been unjustly suffering for years. It will, let us hope, put an end to the "trust-busting" proclivities of the national Government. It is one more evidence that the pendulum is swinging away from radicalism.

More far-reaching, however, than either of these is the Esch-Cummings Bill and the subsequent decision as to railroad valuation. For ten years or more now, railroad stockholders have been so battered from pillar to post that even yet it is difficult to realize that measures have actually been passed whereby they may at least expect a fair return on their investment. Unfortunately, stockholders have become so used to mistreatment that it is going to be difficult to get the new focus. It must be recalled that many of the so-called standard issues are selling at scarcely more than half the prices at which they used to be considered prime investments. Not that railroad stocks can be indiscriminately purchased; unfortunately, the events of the past ten years have, in some instances, so dissipated actual values that a recovery to old levels, even on the new rate basis, cannot be expected. But it does restore the prospect of adequate earnings to roads that are intrinsically capable of making them and best of all, it restores the prospect of revived railroad credit and the resumption, so sadly lacking in recent years, of the flow of capital into railroad properties. The specific instructions to the Interstate Commerce Commission as to what rate they shall establish, instead of leaving the matter, as has been done in the past, to their judgment, is the real meat of the situation. The collateral effect of this act on all railroad supply industries, as well as the direct effect on the railroads themselves, is difficult to gauge, but it is bound to be very great.

Coming on top of a thoroughly liquidated market, it is no wonder that the effect of these developments has been marked. Whatever may be one's opinion of future economic conditions, it seems to us that the effect of these acts has, by no means, been as yet fully registered. The one drawback is the financial situation. Even here there is some prospect of amelioration. If, as is promised, large imports of gold are imminent, the greatest stringency has been passed. The danger is that in the midst of our own prosperity we take too narrow a view, and forget the effect that world conditions must, eventually, have on our own. America cannot permanently stand alone prosperous in a depressed world. If further Government loans are inadvisable, it seems merely good business sense, as it should be our Christian concern, to render all aid possible to distracted Europe. Foreign exchange rates are the most hopeful sign that a recovery is really on the way.

Later on, there will be new problems to meet, particularly when production shall have overtaken consumption. Already, there are signs that the reckless buying of the last few months is on the wane. We believe, however, that it will be at least the latter part of this year before these problems will become pressing. With the constructive developments of the last few weeks and the promise of capacity business in all essential lines through the balance of the year, we anticipate that at least the proverbial spring rise will materiallze in large measure.

WORTHINGTON PUMP.—Worthington Pump closed its fiscal year on December 31 with the smallest carry-over of unfilled orders of any year since 1915. The unfilled orders on hand on January 31 of $8,784,542 were 66% less than the unfinished business of $26,161,859, which 1918 transferred to the fiscal year 1919. And these unfilled orders of $8,784,542 were furthermore but a little more than one-fifth of the $41,834,777 of uncompleted work on hand on December 31, 1917.

All through 1919 Worthington Pump was adjusting itself to the normalities of peace time demand. And this demand was slow in asserting itself. Possibly in one sense the company was paying the price of its exclusive devotion to Government business—a devotion which for a time may have lost it some customers to its competitors. But since January 1 there has been an altogether agreeable picking up in the volume of incoming orders. It is understood that new business booked in January and February was at a rate 100% in excess of the previous few months and amounted to a volume sufficient to give the company a present total of $10,000,000 to $12,000,000 of forward business. Worthington Pump is a producing organism which at current selling prices can turn out comfortably $40,000,000 of products per annum. It can make a very fair manufacturing profit—say 15% on $30,000,000 gross. On $20,000,000 turnover its manufacturing profit would naturally decline, but even on this bulk of sales it should be able to earn the $1,010,000 required for preferred dividends and a balance that would cover the 6% dividend just inaugurated on the $12,992,000 common stock.

In other words, in starting common dividends at 6%, Worthington directors cannot be accused of straying very far from the paths of industrial conservatism. Just why 6% should have been selected instead of 7 or 8% is perhaps as readily explained by the then prevailing price of the shares.

In its December 31 fiscal year Worthington Pump reports a final common stock balance of $2,246,266 or $17.29 per share. This compares with $19.93 in 1918 and $28.54 in 1917.

The 1919 accounts were made up on the basis of the same conservative accounting methods that ruled in 1918. In other words, had Worthington Pump been intent on "making a showing" it would doubtless have disclosed common share profits considerably larger.

Working capital crossed the $20,000,000 mark showing 1919, the actual figures of $20,504,996 comparing with previous years as follows:

	1919	1918	1917	1916
Working capital	$20,504,996	$10,006,169	$15,065,548	$9,331,781
Par of preferred stocks and bonds	16,420,704	16,525,304	16,525,304	16,535,104
Balance for common	4,084,292	2,480,865	...	...
Equals per share	31	19	...	...

Worthington Pump plainly has enough working capital for a $40,000,000 business. On $20,000,000 gross it would have $10,000,000 to $12,000,000 of funds which could be invested. The income from such a source would more than cover the Class A preferred dividend even though an investment of $10,000,000 brought in a return of but 4%.

In 1919 the company set up a reserve for Federal taxes of $2,000,000. The balance sheet shows a Federal tax reserve of $3,424,440. The natural assumption is that some of the $4,000,000 reserved for this purpose in 1918 has not been expended. It will be interesting to watch developments and see if later experience does not demonstrate that reserves for taxes have been somewhat over-liberal.

CHANDLER MOTOR.—Decision of Chandler Motor directors to place the 210,000 shares of stock on a regular $10 dividend basis was based on the strong earnings which the company expects to realize in 1920. It is the first increase ordered since the stock was subdivided and three shares of new issued for each one of old.

Less than a year ago Chandler Motor Company was paying $16 per share on its then 70,000 shares of stock. The dividend rate was increased in June, 1919, from a 12% to a 16% basis and again in September, 1919, to a $24 basis and shortly thereafter the subdivision on a 3 to 1 basis was ordered. An $8 dividend has been continued on the 210,000 shares and this rate has now been advanced to $10, the equivalent of $30 on the old stock.

Chandler Motor net profits have started out with a rush so far in 1920. January and February net before taxes was about $1,600,000, or at the rate of $9,500,000 per annum. These earnings are at the rate of slightly over $45 per share. After taxes, Chandler Motor on this basis might be expected to earn close to $30 per share. The final share profits in 1919 were $16.40.

The company has been shipping at the rate of over 900 cars per week, an annual rate of 45,000. For all of 1919 the company will have a productive capacity of 40,000 cars, an increase of 100%, compared with 1919 shipments of 20,000 cars.

Like all automobile companies, Chandler represents a producing organism which is currently blessed with abnormal earning power. A good many sound judges believe that the auto industry will enter a competitive area this fall. In the most concise language possible this means that for the first time since 1915 production will have outstripped consumption. Should this judgment prove accurate in actual developments the estimates of Chandler profits just given may have to be revised somewhat, at least so far as the final quarter is concerned. Chandler is, however, perhaps the most self-contained of all the auto companies and has sold no securities to the public since the original financing.

AMERICAN SUGAR REFINING.—Net profits, after deducting all expenses, of $14 per share would not of themselves create a great deal of enthusiasm, or seem to provide a very large margin for a company that is paying total dividends of $10 per share. The fact remains, however, that the gross profits of $15,250,619 were much the largest that this company has reported for a good many years; if not in its history. As in the case of the last two years, the company has evidently taken advantage of its large profits to charge up quite liberally for various debit items.

To bring out this fact rather more clearly, we show the amounts allowed for various items last year as compared with the average of the previous six years. The latter, as we have pointed out, include two years of unusually large charge-offs:

	Debits	
	1919	Average Previous 6 Years
Depreciation	$2,000,000	$1,449,000
Improvements	3,000,000	752,000
Pension	250,000	200,000
Insurance	300,000	133,000
Advertising	——	250,000
	$5,550,000	$2,784,000

It will be seen that last year the company allowed for these various items twice as much as the average of the previous six years. The difference between the two figures would amount to exactly $6 per share on the common stock.

We realize, of course, that it takes much more to accomplish the same amount of work than it did a few years ago, so that this entire difference cannot be regarded as in the nature of "concealed earnings," yet there is no doubt that a very considerable part of this can be properly regarded as in the nature of earning power.

Interesting changes in the balance sheet are a decrease of about $7,500,000 in the General Investment Fund and an increase of $4,500,000 in Cash on Hand. Statements in the report which seem to warrant particular attention are that on a business of $300,000,000 the company secured a return of but 3% on sales. Also the fact that from 60% of the sugar business of the country in 1900, American Sugar Refining's proportion has dropped to 27% in 1919.

For the last two years the sugar refiners have conducted business on a fixed margin of profit. With the restoration of an open market and the opportunity once more to exercise their judgment in the purchase of raw sugars, in which, in years long gone by, the company secured a large part of its profit, it will be interesting to see how the present management fares.

RAILWAY STEEL SPRING.—Railway Steel Spring presents an exceedingly well balanced annual statement for its December 31 fiscal year. The actual net of $4,394,353 before taxes is to be sure but 55% as large as in 1918 and less than half as large as the 1917 net of $9,098,968. But that was to be expected. Both 1917 and 1918 were war years and the equipment companies of which group Railway Steel Spring is a representative member felt the stimulus of urgent and consequential Government orders.

It is, of course, obvious that the figures which chiefly interest the holders of the $13,500,000 common are the balance after taxes and preferred dividends. From this standpoint, Railway Steel Spring did very nearly as well in 1919 as in any previous twelvemonth save the record year 1917. The balance for the common stock in the late year was 16.66%, compared with 18.33% in 1918 and 32.32% in 1917. These figures are shown in the following, which give a concise five-year picture of the earning progress of Railway Steel Spring:

	1919	1918	1917	1916	1915
Net	$4,394,353	$8,019,020	$9,098,968	$4,022,590	$1,688,466
Taxes and interest	1,200,000	4,592,920	3,791,108	311,785	325,237
Balance	3,194,353	3,426,100	5,307,860	3,710,805	1,363,229
Preferred dividends	945,000	945,000	945,000	945,000	945,000
Surplus for common	2,249,353	2,481,100	4,362,860	2,765,805	418,229
Per cent. earned	16.66%	18.33%	32.32%	20.49%	3.09%

In arriving at figures of net it may be noted that $533,343 was included in 1919 operating expenses on account of depreciation. Except for 1918 and 1917 it is the largest depreciation provision the company has ever made.

The 1919 story of the equipment companies as a whole was pretty much alike. There was a large carry-over of unfilled orders from 1918. This gave the opportunity for a high percentage of operations during the first half year. New orders were sluggish in flowing to the companies' books during most of 1919. As a result there was curtailment of operations during the second half year. But new business braced very sharply during the last two or three months and Railway Steel Spring was able to carry over into 1920 a good-sized volume of unfilled orders.

In this respect Railway Steel Spring excelled such companies as American Locomotive and Baldwin

which did not enjoy free buying in the last quarter of 1919 and which even now have far less than capacity business on their books.

Like American Car & Foundry, the Railway Steel Spring has acquired a Canadian plant. The new works is located in Montreal and is known as the Canadian Steel Tire & Wheel Co., a $1,000,000 corporation, all of whose stock is in the parent treasury. This Canadian branch should afford a new field of sales and gives Railway Steel Spring access to certain European markets.

At the end of 1919 the company's working capital position was the best in its history. If, as seems correct "stocks, bonds and investments" of $6,292,326 be treated as a current asset then the December 31 balance of working capital was $10,120,384, or $77.84 per share for the $13,500,000 preferred. This compares with $8,518,520 on December 31, 1918, a gain in the year of $1,601,864 or 18%. And it is furthermore of interest to note that as compared with the end of 1914 the company has doubled its net quick assets, the increase being from $4,268,298 to $10,120,384, a gain of $5,852,086.

In addition it has retired $6,628,000 of bonds, so that in five years there has been an apparent improvement in financial position of $12,480,086. Relatively this is a very large sum. It would seem to be considerable enough to support with much weight the faith of those who hold that the $8 common dividend can be regularly maintained.

GILLETTE SAFETY RAZOR. — The business of this company has enjoyed a tremendous expansion in the last few years, profiting directly and indirectly through the war. There seems to be a good possibility, however, that a considerable part of this expansion is permanent and not temporary, and the stock has retained a large part of its advance through all the market weakness of the last few months.

The Gillette Safety Razor Co. was originally formed in 1901, with a capital of $500,000. In 1912 the capital was increased to $13,000,000, and in 1917, when the present corporation was organized, the capitalization consisted of $6,000,000 of 6% five-year notes, and 152,000 shares of stock without par value. Since that time, through conversion and retirement, the notes have been cancelled, so that after giving effect to the 10% stock subscription privilege offered shareholders early this year, the present capitalization consists solely of 233,200 shares of stock of no par value.

On the new stock, $1.75 was paid in 1917, $9.50 in 1918, and $10 in 1919. The present rate is $10 per share annually.

The development of the company's business and earnings in the past few years is shown in the following:

	Razors Sold	Dozen Blades Sold	Net Earnings
1919	2,315,892	17,320,517	$6,025,350
1918	4,580,987	12,895,618	5,252,136
1917	1,094,182	9,619,030	4,603,782
1916	782,028	7,153,466	3,192,832
1915	451,861	5,928,117	2,427,174

Sales to the United States Government accounted for about 3,500,000 razors and 3,000,000 dozen blades in 1918, and 447,000 razors and 2,200,000 dozen blades in 1919. Even without these orders, however, sales would have maintained the previous rate of expansion.

The net earnings are before any allowance for Federal taxes, and the balance sheet contains no tax reserve, so that it is impossible to estimate this item. Nevertheless, 1919 net before taxes was equivalent to $28.42 per share on the stock outstanding at the close of the year.

The company's balance sheet for December 31, 1919, showed a net working capital of about $9,700,000. Patents were carried at $9,000,000. Disregarding this item the stock had a book value of $73 per share, and including it, of $116 per share. This matter of patents is an extremely important one to the Gillette Co., and it is undoubtedly justified in giving them a high valuation. Some of its patents expire in 1921, but the business is well protected by supplementary patents, and the management has been very successful in perfecting new devices to improve and simpilify the process of manufacture, particularly in blade making, all of which are, of course, amply protected.

Perhaps one of the most important features assuring the future of the Gillette business is the 4,000,000 razors distributed by the Government. A large percentage of these razors will probably remain in use and will permanently increase the demand for blades. During 1919, the annual blade capacity was increased from 10,000,000 dozen to 25,000,000 dozen. Further extensions to plant capacity are planned, the financing of which is doubtless being provided for by the recent offering of stock at $100.

It is understood that the net earnings for January, 1920, amounted to about $1,000,000, which would be at the annual rate of $12,000,000 or over $50 per share on the outstanding stock.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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THE GENERAL MARKET.—The advance in the last three weeks has come about without any decided change in the business situation, which was, as a matter of fact, entirely satisfactory while the market was at its weakest, but there is discernible some lessening of the tension in the money market. That this should be so with loans at the highest figure is all the more remarkable. Though not apparent on the surface, it would seem as though there must have been a partial deflation in some lines. This is, normally, the season of the year when business is at its lowest ebb, and there is some contraction in loans. There cannot but be some apprehension as to what will happen when the usual demand for spring accommodation sets in. The gold exports cause much uneasiness yet this, after all, is but one step that must be taken in the process of a return to normal conditions. We cannot expect to retain, indefinitely, two-thirds of the world's gold supply. The strain on credit because of increased loans and deposits is more a subject for worry than is the deportation of gold. Moreover, if we are, as we like to think, to become the world's center of finance, as England used to be, we must be prepared to continue a free gold market.

While the Railroad Bill is the most constructive piece of work that has been done in many years, it is being gradually appreciated that it offers no panacea, especially for the weak roads. The earnings of no individual railroad are guaranteed. There is a large margin left for individual initiative and efficiency. We hazard the opinion that those roads that have been the best in the past will be the best in the future. The Interstate Commerce Commission still has enormous discretionary power. The injunction to name rates that will secure a return of 5½% on valuation is for two years only. After that the instructions are merely to see that a "fair return" is secured. A 5½% return, however, on present valuations would mean adding over five hundred million dollars to the net revenue of the railroads which will to some extent establish a standard.

The new appointments to the Interstate Commerce Commission will be watched with a good deal of anxiety; this Commission is now composed of one ex-chief of a railroad labor union, two college professors, four lawyers and one newspaper man. It would seem not amiss to appoint some able railroad men to this Board and, perhaps, one banker.

The great feature of strength in the situation continues to be the fact that production is still behind consumption. In nearly all lines it is the same story. It will take at least the balance of the year to catch up. Yet it must be remembered that the time will come when production will overtake consumption. Present conditions cannot last indefinitely; there will not always be the same insatiable demand.

The market advance has at least put an end to the foolish "panic" talk that was current a month ago. Every sane man realizes that, eventually, an adjustment is inevitable. But there is no reason why this should not be accomplished gradually and if, as now seems likely, this is what will be done, there need be no apprehension of any sudden upheaval.

The market has had a very substantial advance in the last three weeks; stocks are by no means as cheap as they were then, and one must, accordingly, modify his views to some extent. We feel, however, that the prospect for business through the balance of the year is good enough to warrant a somewhat further advance, especially in some particular lines of stock, but it should be, we think, quite frankly appreciated, that the deflation process is bound to set in in earnest, sooner or later, and that, on the basis of a deflated industrial situation, securities today cannot be said to be selling at a low level.

Breaks, such as we had in November and again in February, are bound to be repeated from time to time. Any one fortunate enough to have got in around the low levels of last month can well afford to retain a part of his holdings, but we feel that advantage should be taken to at least a certain extent of any further rise.

INTERESTING SUGAR DEVELOPMENTS.—Upon the sugar industry the influence of the war probably exerted an even more profound effect than upon any single important food commodity. This fact has been perfectly patent for the past four years. In 1920 it is expressing itself in a different form—a large increase in the retail selling price for granulated. In a certain sense the removal of the artificial restraint of Government price fixation has produced in 1920 a jump in prices that has concentrated in a single year a price increase that is cumulative. In other words, the prices established in 1918 and 1919 under Government control were not the natural economic price. With the period of Government price fixation ended sugar prices have jumped in a single year as much as they perhaps would have advanced under more normal conditions in two or even three years. The law of supply and demand has been allowed fair play, the immediate effect being a 100% advance in the price of Cuban raws.

With comparatively little comment a very radical change has been taking place in the sugar industry of the United States in one important respect. We refer to the entrance by the refiners into the raw sugar industry of Cuba.

It was a very sharp departure from precedent for so conservative a concern as American Sugar to invest $10,000,000 or $12,000,000 in the Cuban sugar business. In November last the company acquired the central Cunagua in Camaguey province. This is a property of 110,000 acres, operating a double tandem mill with a capacity of 600,000 bags per annum. The mill is a new one, described by experts as being the most modern and thoroughly equipped property in Cuba. It is generally agreed among sugar experts that in securing this property American Sugar was exceedingly fortunate and that the price paid was conservative. In fact, in 1920 and 1921 the property is likely to earn a large percentage of its cost to American Sugar.

It is only logical to believe that American Sugar will ultimately extend its Cuban investment, not with the idea of producing enough raws to supply its refineries, but with the general purpose of preserving a close contact between the raw and refined situation. American Sugar refining 1,500,000 tons of raw yearly can hardly hope to produce more than a mere fraction of this huge total. The company has, however, in Cunagua a property of such possibilities that further mill expansion is entirely feasible.

The Warner Sugar interests controlling the Warner Refining Co. have also recently entered the Cuban field in a large way. Their acquisition of the Gomez-Mena and Amistad property in conjunction with smaller properties previously owned gives them a total Cuban production of 800,000 bags, say about one-third of the amount of raws refined annually.

The National Sugar Co. is the second largest refiner in the United States. It has no direct ownership in Cuban raw sugar production. But the company is closely affiliated in ownership with the Cuban-American Sugar Co., the most successful Cuban property in which American capital has so far invested. This point of contact is perhaps sufficient to give National Sugar the advantages which may be expected to flow to American Sugar and Warner through their direct investment.

The Revere Sugar Refinery is an illustration of reversing the line of reasoning. This refinery was acquired by United Fruit Co. several years ago and has been expanded into a $7,000,000 enterprise with a new and modern plant. It was bought by United Fruit to give that company an outlet for its Cuban crop of 800,000 to 900,000 bags should future development make such protection necessary.

Incidentally it is worth noting that in 1920 United Fruit is promised a year of maximum sugar prosperity. Unlike most eastern sugar estates United Fruit is 100% administration cane. It is probable that in 1920, despite some poor cane at one of its mills, the company will earn $10,000,000 to $12,000,000 net from sugar, the latter sum equal to better than $23 per share on its stock against the present $12 dividend rate.

Another interesting development which 1920 is likely to witness should be the payment to shareholders of several sugar corporations in extra dividends—stock or cash—of some portion of the large earnings reaped in recent years. A number of Cuban producers will probably take such action in the comparatively near future. Cuban American Sugar has suggested a 10 to 1 division of its shares. If adopted this should mean a sharp increase in the cash dividends paid. National Sugar is in line for a substantial stock dividend. If the United Fruit Co. pays its expected stock dividend it will be partly on the basis of sugar earnings. American Sugar is not likely to pay a stock dividend, but the argument for continuance of the 10% rate will be very strong. Smaller Cuban properties like Manati and Guatanamo are also in line for stock dividend or sharp increases in the regular cash rates. Punta Alegre Sugar is having such strong earnings this year that it is not impossible that later in the year consideration may be given to the payment of something larger than the regular $5 dividend.

SOUTHERN PHOSPHATE CORPORATION.—The prospects which were entertained at the time of the formation of the Southern Phosphate Corporation in December last promise to be brilliantly fulfilled in 1920.

The new corporation represents a consolidation of three companies, the Lakeland Phosphate Co., the Standard Phosphate Co. and the Export Phosphate Co.

The Southern Phosphate Corporation took over the Lakeland and Standard Companies on January 2, 1920, and from that date the operation of those two companies has been for account of the new corporation. Southern Phosphate has also acquired all but a few hundred shares of Export Phosphate Co., so that at present it owns over 95% of the Export Company.

The broad, important point is that Southern Phosphate has a demand for its product for export greater than it can supply. For the past two months the company has been offered more business than it can take.

The present output of phosphate rock is running about 20,000 tons per month. By June it is expected that output will reach 30,000 tons per month. The estimated production of 290,000 tons of high-grade rock in 1920 is, therefore, in a fair way of being realized.

The company has taken contracts since January 2 for more than 100,000 tons of high-grade rock at prices ranging between $9 and $13 per ton free abroad ship, according to grade. On these sales, some of which extend over into 1921 and 1922, the company may conservatively expect an average profit of $4 per ton.

Despite the wide variations in foreign exchange neither the demands nor price of export rock have shown

any recession. The current market for 70% rock, for example, is at present $7.25 per ton free aboard ship. On 75% rock the price is $10.50 per ton and for 77% the market demand is sufficient to absorb all tonnage available at $12.50 per ton.

There are many American products which Europe may be obliged to do without. But phosphate rock is one of the prime necessities which Europe must have if it is to grow its crops. There has been some misunderstanding because of press accounts that Europe was buying large tonnages of African rock. This is not competitive selling. For years Europe has depended for its phosphate rock upon a 50-50 mixture of the low-grade African rock with the high-grade hard rock and hard pebble phosphates from the United States. Without American rock the African deposits would possess but little commercial value. The condition has existed for years and promises to continue indefinitely.

Southern Phosphate has known deposits of 6,650,000 tons of high-grade export rock and 5,500,000 tons of Standard rock suitable for domestic use. This year production will be concentrated in the high-grade rock.

There are probably less than half a dozen phosphate companies in the United States having any considerable tonnages of high-grade land pebble rock. Southern Phosphate has joined the Export Phosphate Association organized under the terms of the Webb law. The policy of the export association should stabilize for years to come the market for an important American product and lead to its wise conservation.

STUDEBAKER CORPORATION.—The outcome of the financing which the Studebaker Corporation has arranged during the last 16 months has been that the company is in the best financial condition in its history and is well equipped to handle the largest production expected in 1920.

In December, 1918, the company sold $15,000,000 7% serial notes. That proved to be a piece of temporary financing and whatever undue haste was shown by the sale of these notes was corrected by the offering in November, 1919, of $15,000,000 common stock at 105. Due to money and general market conditions a large percentage of the $15,000,000 new common went to the underwriters. The existence of this large bulk of unplaced stock explains in part considerable of the weakness in Studebaker shares during the past three months. And by the same token it may be assumed that the recent sharp recovery in the shares is a possible indication that this stock is being absorbed by investment purchase.

By this financing Studebaker has extinguished all bonded or floating debt and has outstanding $10,260,000 7% preferred and $45,000,000 common. The preferred stock is covered more than three times over by working capital, which on December 31, 1919, the end of the late fiscal year, amounted to $33,911,452. In fact, Studebaker had a working capital balance for its $45,000,000 common after deducting par for the preferred of $52 per share, while total book value of the common in tangible assets was $109.68. There are very few automobile corporations and certainly none of the size and importance of Studebaker which have an asset value less than their current market price.

In 1919 Studebaker delivered 39,356 cars and earned $28.54 per share on the $30,000,000 outstanding during 11 months of the year. In 1916, with a record output of 65,885 cars it earned $26.14 per share for the common. Higher prices and greater operating efficiency are thus plainly in evidence. In fact, the manufacturing profit of 16.8% was the best in the company's career.

The 1920 schedule calls for 80,000 cars. The horse vehicle department is also crowded with orders. The big new works at South Bend, Indiana, on which $7,380,173 was expended in 1919, will be in production by May or June. Studebaker is plainly lined up for a year of large results in 1920. Net before taxes is likely to run well ahead of the $14,200,000 rate attained in the second half of 1919. In order to earn 28% on its now $45,000,000 common the company will, however, have to show a balance for its junior stock this year of $12,600,000, or $3,300,000 more than in 1919. It ought to be able to do this.

Studebaker is now in a position where it can conservatively pay more than 7% in common dividends. A 10% rate has been mentioned. But it must be remembered that each additional 1% represents $450,000 instead of $300,000 as was the case up to the time the new common was issued.

AMERICAN HAWAIIAN STEAMSHIP.—While it is true that those interested in current fluctuations naturally prefer those securities that are quoted from day to day on the principal exchanges, it is a well-known fact that there are occasionally presented opportunities for acquiring securities that—for special reasons—may not be listed but offer extraordinary attraction and are free from the vagaries of trading fluctuations.

Such a security seems to be the shares of the American Hawaiian Steamship Company.

This company was organized in 1899, and its capitalization now consists exclusively of 500,000 shares of common stock. It owns what is generally conceded to be the best fleet of cargo ships afloat, aggregating 174,330 tons and financed for the most part out of the company's earnings. It has recently acquired practically the entire capital stock of the Coastwise Transportation Company—owning and operating a fleet of 10 colliers, aggregating 76,500 tons. After allowing for the company's net quick assets, which aggregated $9,378,500, equal to over $18 per share on the stock, the current price of $75 per share places a valuation on its cargo fleet of but $117 per ton. This compares with a present construction cost of $175 to $200 per ton.

The fact that the American Hawaiian Steamship Company has been continuously successful over a

period of twenty years is conclusive evidence of its earning ability, not only under war conditions that, as is well-known. have brought large earnings to all steamship concerns, and still prevail to a considerable extent, but under pre-war conditions, which the average American steamship proposition found very difficult.

The American Hawaiian Steamship Company's cargo fleet is time chartered on an average of seven months and the coastwise fleet for three years. For 1920 net earnings, after taxes, are conservatively estimated at between $8,500,000 and $10,500,000, or from $17 to $21 per share.

This is twice the present dividend rate of $8 per share, and is 25% upon the going price of the shares.

At this price the stock nets over 10% and represents an ownership in a property which has not only an asset value far in excess of the market price of the stock, but one that has demonstrated its earning ability over a 20-year period, under widely varying conditions.

SPECULATIVE POSSIBILITIES IN RAILROAD STOCKS.—Although the railroad stocks have advanced somewhat since the passage of the Railroad Bill and the Supreme Court decision regarding railroad valuation, it hardly seems as though the full significance of these two developments were as yet appreciated by the speculative public.

Of course, for about ten years practically every development in connection with the railroads has been of a destructive nature, and the tendency of railroad securities has been consistently downward. Now for the first time we have something of a definitely constructive nature, although it is perhaps too much to expect that a speculative prejudice of many years standing against railroad stocks can be changed immediately.

Under general market conditions in any way favorable there would appear to be some attractive speculative possibilities in the railroad stocks. As illustrating this, we have prepared the following table comparing present prices with the highs and lows of the past decade and giving the current investment yield of the dividend payers. Today's prices are only slightly above the lows and very materially below the highs.

It is not, of course, to be understood that any return to these high levels in the immediate future is to be anticipated. Money conditions, for one thing, would not warrant it. Furthermore, some individual roads, such as the New Haven, Baltimore & Ohio, St. Paul and Boston & Maine, have been more adversely affected than have the rank and file of the roads. Nevertheless, a very substantial advance could take place in most issues and still not bring them within hailing distance of the highs of ten years ago:

Railroad	Range 1910-1919		Present Market	Points Below High	Points Above Low	Present Div. Rate	Yield
Atchison	124⅛	75	84	40	9	6%	7.1%
Atlanta Coast Line	148½	79⅞	90	58	10	7	7.8
Baltimore & Ohio	119⅛	27⅝*	37	82	9	—	—
Boston & Maine	152	15	36	116	21	—	—
Chesapeake & Ohio	92	35⅝	58	34	22	4	6.9
St. Paul	158⅜	30¼*	40	118	10	—	—
Chicago & Northwestern	182½	75	90	92	15	7	7.8
Rock Island†	45¾	16	38	7	22	—	—
Big Four	92¼	22	53	39	31	—	—
Colorado & Southern	65¾	18	26	39	8	—	—
Delaware & Hudson	185	87	98	87	11	9	9.3
Erie	45⅝	9½*	14	31	4	—	—
Great Northern	143⅞	68½*	83	60	15	7	8.4
Illinois Central	147	80⅞*	92	55	11	7	7.6
Lehigh Valley (50)	121¼	40½	47	74	6	7	7.5
Louisville & Nashville	170	98 *	106	64	8	7	6.6
Missouri Pacific†	38⅞	19⅞	29	10	9	—	—
New York Central	128	62½	76	52	13	5	6.6
New Haven	162	21½	35	127	14	—	—
Norfolk & Western	147⅛	88 *	97	50	9	7	7.2
Northern Pacific	145⅝	68¼*	84	61	16	7	8.3
Pennsylvania (50)	69¼	39⅞	43	26	3	6	7.0
Reading (50)	115½	60⅛	86	29	26	8	4.7
St. Louis-San Francisco†	30½	9⅜	24	6	15	—	—
Southern Pacific	138¼	75¾	100	38	24	6	6.0
Southern Railway	36¾	14	24	12	10	—	—
Union Pacific	204¾	101¼	122	82	21	10	8.2

*1920 Price. †Reorganized Co. Quotations 1916-1919.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 850 March 26, 1920

THE GENERAL MARKET.—There have been but two major developments in the past week to account for the sudden break in the stock market, viz.: the tightening of the money rate and the serious turn of affairs in Germany. The change in the rate for call money from the stringency in February to comparative ease in the first part of this month, and back to high rates, have taken place without any discernible change in the banking position. It must be admitted that these sudden fluctuations in the money market are rather difficult to account for, unless adopted simply as a warning that there is a decided limit to loanable funds. Such violent fluctuations in the call money rate are certainly a great deterrent to confidence; perhaps quite as much as the erratic gyrations of some of the more speculative stocks. Our English cousins seem to manage this affair much more sanely. Until the middle of the week the market ignored the serious aspect that German internal matters have assumed. We do not believe this is the correct attitude. It is, of course, exceedingly difficult to say just how far the unrest in Germany should be labelled "Bolshevik," but any development that would tend to retard production, or to place impediments in the way of enforcing the peace terms, would be an extremely serious matter.

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The commodity markets have been almost as erratic as the stock market. Just when it seemed as though some progress would be made in the way of commodity liquidation, and a beginning of a return to something like normal conditions, there was a sudden turn-about and some commodities have shot up to new high prices. We do not believe that there is any advantage to be gained from this, even on the part of the producers of those commodities.

While admitting that there is still a serious shortage of manufactured goods, we are inclined to believe that it will not be many months now before production pretty well catches up with consumption, and any violent upturn in prices now can only make the final liquidating process all the more severe.

There is one feature in the situation to balance the shortage of manufactured goods to which we believe sufficient weight has perhaps not been given, namely, that the products of the farmer have shown a very decided shrinkage in price; consequently, the farmer's buying power in other commodities, which have not receded, proportionately, has been very much lessened.

The agricultural districts furnish after all the largest buying power of any one source, and lack of demand from this quarter is bound to make itself felt in time.

Altogether, it is difficult to escape the impression that matters—financial, economic and industrial—are so confused that any extended advance is out of the question. This is not saying that a continuance of the decline would not shortly render many stocks again very cheap; we believe it would, but we may say, frankly, that we consider that world-wide conditions make any such continuous advance as we had in 1915, 1916 and 1919, out of the question, and that one should, at all times, be in a position to take advantage of the recessions, which are apt to become more frequent as we progress in the era of readjustment.

VANADIUM CORPORATION OF AMERICA.—From the low price of last month the stock of this company has shown a total advance of more than twenty-seven points, being one of the prominent leaders of the recent upward movement. No doubt the inauguration of dividends at the rate of $6 annually affected the market favorably, although the real basis for the appreciation in the stock probably lies in the large current earnings and in the favorable outlook for future business.

The company was incorporated in September, 1919, to acquire the property and assets of the American Vanadium Co., which had been in existence since 1906. It owns a vanadium mine in Peru said to contain a very large percentage of the known vanadium deposits of the world, and a smelting and reduction plant near Pittsburg.

Vanadium is used as an alloy in the production of certain high-grade kinds of steel requiring high tensile strength, being largely used in high speed tools, automobiles, armor plate and cutlery.

A few weeks ago the company purchased several other concerns with deposits of vanadium, tungsten molybdenum and other metals in Colorado and a refining plant near Philadelphia. These properties were acquired to enable the company to produce other steel alloys as well as vanadium.

The capitalization of the old American Vanadium Co. was $700,000 of stock. At organization the Vanadium Corp. was given a capital of 280,000 shares of no par value. This has since been increased to 373,334 shares through the offering some weeks ago of 93,334 shares to stockholders at $45 per share in the ratio of one new for every three owned.

In connection with the expansion in capitalization it may be interesting to note that the balance sheet

of the American Vanadium Co. for September 15, 1919, carried property investment at $683,616, while the Vanadium Corp. balance sheet for January 21, 1920, valued the same property at $7,538,176, new acquisitions at $2,664,351 and patents and processes at $1,000,000.

The net profits of the predecessor corporation for the last five years as applied to the initial capital of new company were as follows:

1918	$1,571,356	equals	$5.61	per share
1917	1,605,760	"	5.73	"
1916	1,417,738	"	5.06	"
1915	595,123	"	2.12	"
1914	250,182	"	.90	"

For the period from January 1 to September 15, 1919, net profits came to $619,727 and from the latter date to January 21, 1920, they amounted to $593,328. The total for the year, $1,213,055 is equivalent to $4.33 per share on 280,000 shares. The profits from September to January, however, were at the annual rate of $6.36 on 280,000 shares, and $4.80 on 373,334 shares.

Earnings during the last few months have increased rapidly. In October they were only about $100.000 jumping to $350,000 in January according to estimates. This latter figure would be at an annual rate of close to $12 per share on the stock.

The company's Peruvian property is said to contain at least 20 years' ore supply. The price of vanadium has materially increased in the last few months and with the promised activity in the steel trade during the year, and particularly in the automobile industry, there is every reason to look for record-breaking profits in 1920.

MIDVALE STEEL.—Midvale Steel has now completed four years of corporate existence. The net profits for the fiscal year to December 31 last, showing a balance of $10,588,605 after deduction of taxes, maintenance, depreciation and interest were the smallest that the company has shown in any year since organization. But that was to be expected. It is broadly satisfactory that in so poor a steel year as 1919 Midvale was able to earn its $4 dividend with a surplus. In this respect it contrasts favorably with a number of the independents which last year earned but a portion of dividends distributed.

It is interesting to note that in its December quarter, despite the effect of the steel strike, Midvale was able to realize net profits of $3,483,782 after all prior deductions. This was the best quarter of the year and the balance for the stock of $1.74 was larger than in any previous quarter.

In its second half year Midvale Steel earned $3.48 a share for its $100,000,000 of capital stock, an annual rate of $6.96 a share compared with earnings at the rate of but $3.70 per annum in the first six months. In other words, Midvale depended on a good second half year to show this $4 dividend fully covered.

The company's ability to make so excellent a showing in the final quarter was due to the fact that its Nicetown and Coatesville plants were practically unaffected by the strike, which so far as Midvale was concerned, was concentrated at Johnstown, where operations were suspended from September 22 to November 17.

The following tabulation giving the 1919 net earnings of Midvale Steel for its stock by quarters is of interest:

	Net Profits	Per Share
Quarter ended March 31, 1919	$2,750,197	$1.37
Quarter ended June 30, 1919	946,267	.48
Quarter ended Sept. 30, 1919	3,408,359	1.70
Quarter ended Dec. 31, 1919	3,483,782	1.74
Total for fiscal year	$10,588,605	$5.28

In the past four fiscal years which covers its corporate life, Midvale Steel has earned a balance for the stock after all deductions, of $53.41 per share. This is slightly more than the par of the stock. Of this amount $15.50 has been paid in dividends, leaving almost $38 a share which has been returned to property account or added to working capital. The course of share profits is shown by the following:

	1919	1918	1917	1916
Per cent earned	10.58%	29.21%	35.58%	31.46%
Dollars per share	5.29	14.60	17.79	15.73

One of the extremely interesting features of the 1919 annual statement is the disclosure for the first time of the company's tonnage of steel products shipped. In 1919 Midvale shipped to customers a total of 826,925 tons of steel. The average of the three previous years was 1,540,285 tons. 1919, therefore, represented a decrease of 713,360 tons from the three-year average. In other words, output last year was at but 53.6% of normal as established by the average of the three preceding years. This result was due to the fact that in the first eight months the company was passing through the readjustment following the

end of the war. Later on when orders began to pile up the company ran into labor troubles incident to the general steel strike. It is certainly an evidence of very considerable financial stamina when a company is able to earn its dividend on the basis of operations of but about 50% of capacity.

Due to the fact that there is still a shortage of labor and that extensive improvements and betterments are to be undertaken in 1920 at the Cambria plant, it is expected that the current year will show operations at about 75% of capacity.

When Midvale acquired the Cambria works it was fully realized that large sums would be necessary to thoroughly modernize them. This work would have undoubtedly been completed by this time had not the war intervened forcing on the company the necessity of production rather than a partial diversion of its energies to any program of plant betterment or improvement.

It is probable that some $10,000,000 to $15,000,000 will be expended on the Cambria works during the next 18 months, the result of which should be some increase in capacity and a very material gain in the cost of production.

At the close of last year Midvale Steel was in an exceedingly satisfactory working capital position. The balance of net quick assets of $88,261,258 was equal to the par of its bonds, including bonds of subsidiary companies with a balance for the stock of $33,392,758, or $16.60 per share. Back in 1916 the company's working capital was sufficient to cover its bonds at par, but leaving a balance of only $5,373,174 or $2.68 per share of stock. The progress of working capital in the last four years is pictured in the following:

Working Capital Position

	1919	1918	1917	1916
Current assets	$108,789,415	$121,193,201	$110,555,156	$77,853,478
Current liabilities	20,528,157	29,714,785	37,593,811	17,603,304
Working capital	88,261,258	91,478,416	72,961,345	60,250,174
Bonds	54,868,500	56,264,000	57,908,000	54,877,000
Balance	33,392,758	35,214,416	15,053,345	5,373,174
Per share	16.69	17.60	7.52	2.68

It seems reasonable to suppose that with the extensive program of property improvement and rehabilitation which the company has under way for 1920, that even though net earnings should show a very large expansion the most that will be done will be to continue the present $4 dividend. This dividend, however, does appear to be well fortified.

BETHLEHEM STEEL.—While the preliminary report for 1919, published a few weeks ago, had disclosed the fact that the Bethlehem Steel Corporation earned in 1919 $20 per share on its common stock, much the largest amount earned by any of the more important steel companies during the calendar year, a study of the full report published this week reveals additional facts of decided importance.

These may be summarized as follows:

A decrease in inventories of	$12,096,000
A decrease in accounts payable	13,848,000
A decrease in funded indebtedness	25,186,000
An increase in working capital	8,493,000

At the time of its greatest earnings in 1916, Bethlehem Steel was criticised, and quite justly, for a shortage of working capital. It is pertinent, therefore, to note briefly the way this important item has been built up:

	Current Assets	Current Liability	Working Capital
1919	$142,882,271	$54,244,017	$88,638,254
1918	157,500,104	77,354,611	80,145,493
1917	153,919,965	81,024,462	72,895,503
1916	86,763,814	50,420,469	36,343,345
1915	66,663,721	52,329,314	14,334,407

In the last five years, Bethlehem Steel has made net additions to its plants of $235,022,000, yet at the close of the period the plant property account stood at $205,212,000, as against $76,955,000, five years previous,—an increase of $134,257,000; that is, of these additions to plant in the last five years, just $100,000,000 has been written off through depreciation, amortization, etc.

As the largest manufacturer of munitions in this country, Bethlehem Steel had an enormous amount of work thrust upon it, first by the Allies and then by our own Government. To respond to this and then later to turn its plant into what is now the second largest producer of commercial steel has entailed an enormous amount of new construction. It would appear, however, that the end of this period is in sight. Last year the company spent for construction and properties acquired $34,000,000. To complete the construction in progress it is estimated will require $19,000,000 more.

It would have been interesting, we think, had the management vouchsafed some statement as to what proportion of the company's earnings were derived strictly from the steel business and what from the shipbuilding. The impression is strong that the comparatively brilliant showing of last year was due, in large part, to the fact that unlike other steel companies, Bethlehem has a great shipbuilding industry and that this was responsible for a great proportion of its earnings; in other words, it is more of a diversified proposition.

Finally, an interesting paragraph in the report is to the effect that developments are in progress for the building of vessels for carrying ore from the company's Chilean ore property. Bethlehem Steel owns in Chile one of the world's most remarkable deposits of iron ore, very high in grade, and free from impurities. During the entire war period it has, of course, been unable to avail itself of this, but this should henceforth give it a decided advantage in the production of low cost iron.

NORTH AMERICAN COMPANY.—As had been generally expected earnings of the North American Company for its fiscal year to December 31 were the best in the past 12 years. The net earnings available for dividends of $2,545,967 were $941,893, or 58.8% in excess of the $1,604,074 earned in the 1918 year. These earnings were equivalent to 8.54% on the $29,793,300 capital stock outstanding December 31 and compare with profits of 5.38% in 1918, 6.05 in 1917, 7.26 in 1916, and 6.06 in 1915. In fact, the company has never before shown earnings as high as $8 a share for its capital stock.

North American is one of the oldest of the public utility holding corporations and controls large electric light and power properties in Wisconsin and Missouri, in addition to an investment of $2,500,000 in the West Kentucky Coal Company of Kentucky. Approximately 75% of the company's business is represented by electric light, power and gas properties. In addition the company controls the street railways in Milwaukee and this street railway is perhaps one of the very few in the country which has been making a satisfactory showing of earnings.

One of the satisfactory features of 1919 operations was reduction in notes payable from $4,177,500 to $500,000 as of December 31. Since that date notes payable have been further reduced to $250,000. The elimination of floating debt has been accomplished in part by use of surplus earnings and in part by the repayment by subsidiaries to the parent company of moneys previously advanced. Funds for this purpose were secured by sale of subsidiary company securities.

The increase in net income of the various subsidiaries in 1919 ranged from 17 to as high as 119%. The West Kentucky Coal Company was the only one of the subsidiary companies whose net income decreased. And this decrease was almost entirely attributable to shortage of labor. The net earnings of the coal company amounted to 10% on its capital investment compared with 16% in 1918.

During 1919 depreciation reserve credits amounted to $2,073,000, the equivalent of $7 a share on North American stock. This was in addition to regular maintenance outlays. Incidentally it may be noted in passing that as of December 31, North American shares represented a property appraisal of slightly better than $115 a share.

One of the encouraging features of the North American situation is the popularity which it enjoys in the territory served. This is shown by the fact that 6,000 residents of the territory supplied by the Milwaukee Railway & Light Company and the Wisconsin Gas & Electric Company, the two largest Wisconsin companies, who have purchased notes and preferred stock of those two companies. In addition some 3,400 customers of the Union Electric Light & Power Company, which serves the Missouri territory, are owners of that company's preferred stock.

A special meeting of shareholders of North American Company is to be held on April 1 at which a proposition will be presented for ratification involving a change in the classification of the company's stock. Instead of having one class of common stock amounting to 297,933 shares, the proposed plan contemplates the creation of an equal number of shares of $50 preferred and an equal number of shares of $25 par, common stock. If this plan goes through the company will then have outstanding 297,933 shares of 6% cumulative preferred, par $50 and 297,933 shares of $25 common. At the same time the par value of the outstanding preferred and common combined will be reduced by $7,448,325.

It is considered probable that the new common stock will be able to start dividends at the rate of $3 a share, so that the holder of the present stock instead of getting a return of $5 a share will get a return of $6 a share. The 1919 earnings would have been equivalent to $5.54 a share on the new common after providing for $3 or 6% on the proposed new preferred.

The outlook is excellent for continued strong earnings for North American Company in 1920 and share profits of $9 to $9.50 may be reasonably expected.

The company last October was granted an increase in street railway fares in Milwaukee, the effect of which was only slightly felt in 1919 income, but all of which will be available for the net earnings of the current year.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—Money, labor and transportation are still the three problems confronting American business today, and very serious problems they are. There cannot be said to be any improvement in the money situation. Not only are there not sufficient funds to finance any general market movement without immediately causing a sharp advance in interest rates, but it takes so much more working capital to swing the same volume of business at these high prices that many business men who are making good profits and would, ordinarily, be interested in securities, either as investors or speculators, find themselves actually obliged to sell securities to finance their own business. Stock Exchange securities are the most liquid asset in the world and, consequently, the first to be sold when there is any shortage of funds. Gold is arriving to be sure, and we hope it may help out in the commercial world. It would be a great mistake to let this be used as a basis for further inflation and we feel sure that it will not be. The issuance of new securities goes on unabated; perhaps there is somewhat less of the more highly speculative and questionable variety, but still the amount that the American public are being asked every week to take up is tremendous. It represents, unquestionably, very much more than can be taken up from savings; in other words, many of these new securities must be finding their way back into the banks. This is a situation that always has been and always will be unhealthy and must, sooner or later, be liquidated.

Labor, as yet, shows little improvement, but immigration has evidently set in in earnest, and if the law of supply and demand still means anything, there ought to be some lessening of the tension in this direction. The railroad transportation system has been allowed to fall into such a state of disrepair that it is bound to take a long time to bring it back to reasonable efficiency. Meantime, this is a great handicap to business.

There is one respect in which the situation shows a decided improvement. We allude to copper. It is now evident that the world consumption of copper last year was much greater than almost any one supposed. The very fact that a syndicate is being formed to finance large exports is significant, for it would not be formed unless there were a definite knowledge that sales would be made. The reports of the producing companies for 1919, now being published, are, to be sure, pretty sorry reading, but two facts are to be considered: First, these reports are for a period that is passed, and that represents very abnormal conditions; hence, are no real criterion. Secondly, if the reports, even for this discouraging period, are analyzed, it will be found in many instances that earnings were small because the companies were carrying at the end of the year large amounts of copper. This was carried at a cost, generally of 15 cents or less. This copper can now be sold several cents higher.

The copper shares are the only industrial issues that have had no inflation whatever. Given a proper setting and they could score very substantial advances.

There are a great many cross influences; in fact, there has rarely been a time when it was so difficult to discern definitely the course of securities prices. Our feeling is that, for the last two weeks, the market, except for half a dozen specialties, has been churning back and forth without really getting anywhere. We do not believe that, at this level, this process represents accumulation.

There are plenty of stocks one can point out that are still selling at reasonable prices; some that we cannot but think must, eventually, command much higher figures, but from the current speculative standpoint, we believe it is a time to advise caution.

THE SOFT COAL SITUATION.—Conditions in the soft coal industry of the United States are almost completely reversed from what they were a year ago at this time. April 1 is a most important date in the bituminous industry. For it is on April 1 that a very large portion of expiring contracts are renewed. Prices for 12 months are, therefore, virtually decided in the period from April 1 to June 1.

Last year at this time the demand for soft coal was exceedingly slack. General business was just beginning to emerge from the hesitation which followed the armistice. Added to this was an enormous stock of coal in consumers hands—a stock estimated as high as 100,000,000 tons. This tonnage had been accumulated under the spur of war incentive to prevent a repetition of the deplorable conditions of the winter of 1917–1918.

Besides these two controlling factors the winter of 1918–1919 had been one of the mildest in a generation and its reflex upon demand was quite marked. Moreover, to add to the general confusion the Government as represented by varying views of different departments had been unable to agree upon a fixed price and this added to an already sufficiently confused situation.

When 1919 contracts were renewed it was, therefore, at a time when the coal producer was struggling against a maximum of adverse factors.

But this year it is a coat of another color. The Government period of price fixation ends by presidential proclamation on April 1. After that a free market will prevail. Moreover, general industry is proceeding at top speed. There is no surplus of coal stocks in sight. Pretty nearly the last of the surplus disappeared during the strike. Furthermore, the bituminous wage commission has just awarded the miners a 25% wage increase, amounting in dollars and cents to an estimated total of $190,000,000, of which $107,000,000 was taken up in the 14% increase granted in December at the time the miners went back to work. In other words, on a 500,000,000-ton output, the $190,000,000 increase in wages amounts to 38 cents per ton of which 21 cents per ton has already been added to the cost price by the 14% increase which went into effect in December.

The 1920 price of coal will, however, as compared with a year ago, have to be advanced by 38 cents per ton to absorb this wage increase. In addition there will in all probability be a sharp advance based purely on the law of supply and demand. The market has already begun to take cognizance of this condition. Soft coal is quoted at $4 to $5 per ton according to grade and point of production. On standard West Virginia and Pennsylvania coals it seems fair to expect a new price basis of not far from $4.25 per ton, which would compare with an average of about $2.85 per ton on expiring contracts.

Broadly speaking, the country is now getting as much soft coal as conditions permit. Output is at an average of 80% of capacity. The West Virginia and Pennsylvania fields are generally well below 80%. In fact, they are hardly doing better than 60% of capacity. This is the reflection of car shortage. But even were there no car shortage coal production of the United States as a whole would still be well under 100% simply because of an apparently unavoidable labor shortage and a decrease in labor efficiency.

The prospects are that 1920 from the standpoint of the coal producers will be a highly prosperous period.

GENERAL ELECTRIC.—Aside from the 4% stock dividends paid during each of the years 1918 and 1919 it is broadly true that any new stock General Electric has issued for many years has been solely for the purpose of increasing working capital. In other words, the company has paid for its enormous physical expansion out of surplus earnings and has added the receipts of new stock sold to shareholders to its working capital balance.

The company has furthermore established a reputation of having issued new stock with exceedingly good judgment. It has never called on shareholders for more money, but that the swift march of events has demonstrated the wisdom and forehandedness of the new financing.

The company retired on December 1, 1919, $10,000,000 notes which came due. The funds for their payment came from current resources. In addition it sold in February, 1920, $15,000,000 6% 20-year debentures, the money being held in reserve to take care of an equal amount of 3-year notes maturing on July 1, 1920.

General Electric is planning to spend on plant additions, (apart from the recent lease with option to purchase of the Remington Arms plant in Bridgeport), more than $15,000,000. This money will be expended during the course of the next 12 months and can be found by utilizing surplus earnings and through employment of cash reserved against depreciation charges.

But General Electric business has been bounding forward at a remarkable rate. Since January 1 it is understood incoming orders have been at the rate of $375,000,000 per annum, more than $1,000,000 of new business each day.

The corporation to finance the capacity business it is now handling requires additional working capital. For this purpose stockholders are to be offered 10% in new stock at $125 per share, creating a right worth $2.50 to $3. This would mean the receipt by the company of about $15,400,000 new cash and would increase working capital assets to about $140,000,000.

General Electric with present plant facilities can hardly produce more than $275,000,000 of products annually and even with additions in view is not likely to attempt more than a $325,000,000 volume of output.

At the end of 1919 the corporation's balance of net quick assets was $123,554,949, comparing with previous years as follows:

	1919	1918	1917	1916
Current assets	$171,806,415	$180,298,731	$154,549,250	$99,080,481
Current liabilities	48,251,466	49,752,633	26,383,905	15,901,360
Working capital	123,554,949	130,546,098	128,165,345	83,179,121

It will be noted that there was an actual decrease of $6,991,149 in the working capital assets during the fiscal year 1919. This is more apparent than real for the reason that $10,000,000 notes maturing December 1 were paid off without financing. Taking this into consideration there was a theoretical 1919 gain of $3,008,851 in net quick. But the actual figures are the basis on which sales are financed and they afford plenty of support to the decision to issue additional stock at this time.

PUNTA ALEGRE SUGAR.—At the beginning of the present crop season the Cuban production of sugar for the current year was estimated at 4,400,000 to 4,500,000 tons. Under the incentive of high prices for sugar for the last few years there had been considerable additions to mills and to cane plantings and it seemed reasonable to suppose that this figure might very well be reached.

It now begins to appear that this estimate will have to be revised downwards. The two principal causes for this are labor and weather. While the labor situation on the estates has been fairly satisfactory, the railroads have had a very difficult time, with the result that it has often been impossible to move promptly both sugar and supplies.

A far more serious impediment, however, has been the weather which, during the crop season, has been exceedingly dry, with the result that the crop will be much smaller than anticipated. Already one or two plantations have had to shut down for lack of cane, and we understand that many more are likely to do so very shortly.

Instead, therefore, of fulfilling the above estimate, it seems as though Cuba would do well to equal its last year's production of 3,971,776 tons. This, naturally, is making for a very strong market for sugar, which will be of the greatest advantage to those companies that can live up to their estimates.

It appears probable that, in spite of the accident a few weeks ago to one of its mills, the Punta Alegre Sugar will be found in this class. Only one of its properties, the Trinidad—much the smallest of the three—has been unfavorably affected by weather conditions. The output here will probably be quite a little under that of last year. This, however, should be more than counterbalanced by results at the other two properties. At Punta San Juan there is an abundance of cane for the increased grinding capacity and at Florida, enough to enable the company to run well in excess of last year's figures.

Up to the 28th of March the three plantations had produced 440,000 bags of sugar—70,000 more than at this time last year. Last year's total production was 605,000 bags. With two months yet to go on the two principal estates, it seems more than an even chance that the company will come up to the original estimate of 700,000 bags.

A very considerable proportion of this year's crop is still unsold. While, of course, there will be no tendency on the part of the management to do any "hoarding," it seems now very likely that by the time that the company is in a position to make deliveries of the unsold balance of its crop, it will be able to obtain very handsome figures.

The net value of the sugar made to date already exceeds the seasonal borrowings by about $3,500,000.

UNITED RETAIL STORES.—The stock of this company has been a leader in point of activity among the industrial shares since the organization of the corporation in June, 1919.

Originally it was practically nothing but an outgrowth of the United Cigar Stores Company, about 90% of whose common stock was acquired through the offer of two shares of Retail Stores for one share of Cigar Stores. Since then, however, it has gone into several other enterprises. The United Retail Stores Candy Stores Company has been organized, of whose 1,100,000 shares the Retail Stores Corporation owns 400,000. This concern has acquired a candy business in New Orleans and is now engaged in opening retail candy stores throughout the country.

A large interest has also been acquired in Gilmer Brothers and Montgomery-Ward & Co. The former operates nine department stores in Southern cities, is now opening one in Norwalk and is planning to extend its business in the medium-sized cities of the country. The latter concern is engaged in the mail order business with gross sales of $100,000,000 a year. Within a few years it is hoped that sales can be increased to between $150,000,000 and $200,000,000 annually.

Besides these companies, the Retail Stores Corporation has invested several million dollars in other concerns which have already yielded a considerable profit and which are expected to yield greater profits in the future.

The outstanding capitalization of the United Retail Stores Corporation consists of 10 shares of 8% cumulative preferred stock, par $100, 160,000 shares of founders' stock of no par value, and 558,349 shares of Class A common stock of no par value.

The net profits, before any tax allowance, for the first six months of the company's existence, from August 1, 1919, to January 31, 1920, amounted to $4,706,332. This is equivalent to $8.41 per share on the common stock, and is at the annual rate of $16.82 per share. An initial dividend of $3 per share was paid to common shareholders in February.

The earnings of the first six months, however, were derived almost entirely from dividends on United Cigar Stores stock and from transactions in other securities. The investment in the United Retail Stores Candy Stores, Gilmer Brothers, and Montgomery-Ward & Co., probably produced very little profit for the reason that these concerns are either in the development stage or were acquired too late to figure very much in the report.

The United Retail Stores Corporation is essentially a holding company, its purpose being the acquisition of retail merchandising concerns in various lines of business, and their expansion and development according to the chain-store idea which has proved so successful in the case of the United Cigar Stores. These concerns are to be operated under their own names, but the control and direction is to rest with the United Retail Stores, which is also to furnish the capital. The financing of subsidiaries may result from time to time

in valuable rights to the shareholders of the Retail Stores Corporation, similar to the privilege offered last August to buy United Retail Sales Candy Stores stock at $10 per share, one share of the latter for each share of the former stock owned. This stock afterwards sold as high as 30.

Although Retail Stores is still more or less in the development stage it is stated that it controls or has an interest in retailing corporations whose aggregate sales will reach over $225,000,000 annually. The chain store proposition has proved very successful in practically every case where tried, and its extension to other lines of trade would seem to be capable of yielding good profits.

AMERICAN TELEPHONE & TELEGRAPH.—There are three rather interesting points that an analysis of the annual report brings out that do not appear at the first glance. The first is in connection with the balance of allowance for depreciation and maintenance. For these items combined the company had for years allowed an amount just about 33% of the total gross revenue. In 1918, however, there was a slight let-up in this respect and with the result that the total of these two items fell to a trifle under 30% of the gross. In the last five months of 1919, when the property reverted to the owners, there was evidently a disposition to revert to the former principles, with the result that in that period the allowance for these items arose to 31.4%. While this may seem like rather a trifling variation, it has been a strict adherence to this principle that has been largely responsible for the maintenance of its high place among public service enterprises. Consequently, as the departure from this principle in 1918 was viewed with some concern, so the apparent return to it should be considered as gratifying.

The second feature is the more comfortable margin of earnings over dividends that the company has shown in the last four years. When the parent company showed for 1917 a direct income of 8.84% to cover its 8% dividends, it naturally created some feeling of uneasiness as to whether it would be able to maintain this rate. It is probably safe to assume that the company is entitled to at least 60% of the undivided surplus earnings of the whole operating system. On this basis we figure that the earnings per share for the last four years have been as follows:—

	1916	1917	1918	1919
Direct earnings reported	$9.77	$8.84	$9.97	$10.04
Share of undivided profits	3.34	1.91	1.66	1.65
Total	$13.11	$10.75	$11.63	$11.69

To be sure, twelve out of the last twenty-four months have been under Government control and the company during that period failed to earn by quite a margin the rental guaranteed it by the Government. Nevertheless, the above were the actual percentages of income received by the company.

As offsetting the failure to earn the Government rental is the third feature that the report seems to disclose, namely: a decidedly larger earning power during the last five months of 1919 under the higher rates—when the property was again under the company's control. For the full 12 months the balance of net profits for the system is given as $51,957,565, but for the last five months of the year they were $23,552,739. Stated on a comparative basis, this would work out as follows:—

1919 actual balance of profits	$51,957,565
Annual profits on basis of last five months	56,525,000

In other words, if the profits for the entire year had been on the basis of those of the last five months, the parent company's share of the undivided profits would have been nearly $3,000,000 larger than it actually was, which would have amounted to another five-eighths per cent. on its stock.

Of course, in a broad, simple way the question of dividends comes down to this,—that to pay 8% requires a return on actual property invested, taken at a very conservative valuation, of only a little over 4% and it seems inconceivable that a company serving the public as efficiently as this does should not be allowed to earn such a return. The figures for the last five months would seem to indicate that it is earning this return with a comfortable margin to spare.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—With the lowering of the rate for call money the pace in the market has greatly accelerated. The impression given is that the public is an eager purchaser of stocks. Frankly, we see very little change in general conditions. There is, perhaps, a feeling that the period of high prices, of inflation, is to continue rather longer than at one time supposed. It is true that so far as the ultimate consumer is concerned, there has been but little change for the better, possibly some for the worse, in the cost of articles entering into daily use. It must be remembered, however, that the ultimate consumer will be the last to feel the effect of any change in the trend of prices. The change will take place first at the source.

There has been a remarkable recovery in English exchange, with some reaction in the last few days. This recovery has, naturally, had a sentimental influence; its actual influence will be limited to the extent that England buys from us. While these purchases will be large in the aggregate, they will probably be much less than in the recent past.

Railroad securities, after the first boom, have subsided. Probably it is due to the feeling that before making any further commitments it will be well to wait and see the actual effect of the new law. The influence of the Interstate Commerce Commission has been baleful in the past and under the new law it is given, within certain limits, greater power than ever.

It is always with reluctance that we adopt any but a strongly constructive attitude. It is, of course, only this attitude, the desire to acquire and build up values, that can win out in the long run. Speculatively, however, there will come periods when it seems inadvisable to make further commitments and particularly so on borrowed money. Frankly, we believe that we are entering on such a period. One must face the fact that industrial stocks are now up anywhere from 20 to 100 points from their low figures of two months ago and can no longer be considered particularly cheap.

This active market, with a strong tone, may very well continue for several weeks longer, but [illegible] ms to us that to buy at this level is running rather an unduly large risk for the possible profit inv[illegible]

THE NEWSPRINT SHORTAGE.—The shortage of newsprint in the United States has be[illegible]ng cumulatively worse over so long a period that few persons appreciate how serious it has become. [illegible]fect of this shortage on prices was obscured during the war period by Government control and pric[illegible]tion. In 1919, for example, the Federal Trade Commission established a price of 3.75 cents per pound o[illegible]tract.

But like sugar and other regulated commodities the period of Government price fixing [illegible]ded on December 31 last.

The newsprint manufacturers took contracts for the first quarter of 1920 at 4½ cents per pound, or $90 per ton, although in normal years newsprint is sold ahead on year contracts.

On April 1 the price was again advanced to 5 cents per pound on $100 per ton, an increase of $10 per ton over the selling level of the first quarter. The "spot market" is quoted at prices as high a[illegible]1 or 12 cents but these figures have little practical importance as there is virtually no supply of spot pap[illegible]

A price of $100 per ton for newsprint is, perhaps, not seriously out of line with the ad[illegible]ce in other commodity prices. But it does compare with prices of $45 to $50 per ton prevailing in 19[illegible] and coming in a product which has been singularly resistent to high-price levels is little short of phenomen[illegible].

There are good judges who believe that the United States consumers of newsprint, in s[illegible]rt the daily papers, are in an era of high cost paper which will continue for several years or until something develops to increase production.

The seeds of the present acute shortage were planted in the Taft administration. The reciprocity fiasco ended with Canadian newsprint producers enjoying distinct advantages over American mills. In certain cases American newsprint producers owning large acreages of Canadian crown lands were prevented from utilizing those lands. The Canadian laws prohibited the export of this lumber save as it was converted into pulp or paper and at that time American manufacturers had no Canadian mills to effect the conversion.

In 1914 the United States was importing about 12% of its annual newsprint requirements. In 1919 it imported 25% and will need a larger imported percentage this year.

Up to 1917 there had been, thanks to failure of the Government to protect the industry, a gradual drift of newsprint mills into other lines of paper production, notably book and bag papers and in some cases craft papers. Actually speaking, the 1917 output of newsprint in the United States was no greater in tonage than in 1910.

The abnormal shortage of the last two years has, doubtless, led many small paper mills to divert machines

to newsprint production. But this is not a sound economic development and this class of output must obviously be high cost.

It seems evident that the exhaustion of timber supply in the eastern United States, high labor costs and the greater profit to be obtained from book and bag papers have combined to create a condition where this country must import a constantly larger portion of the newsprint it requires. In fact, it is perfectly logical to believe that the new few years will witness a considerable influx of American capital into Canadian newsprint mills. Without American capital such new mills can hardly be built and without Canadian newsprint in increasing tonnages there is apparently little prospect of relief from the present acute shortage.

In a sense newsprint production represents the crudest utilization of the paper value of timber. Newsprint manufacture can hardly hope to expand in an old and established community where land and labor values are steadily rising. Newsprint production flourishes best in comparatively virgin territory. There will be for some years a large newsprint output in Maine and northern New York. But the shortage of book and bag papers is nearly as acute as the shortage of newsprint and mills can make 50 to 75% larger per ton on this class of output.

It is a sign of the times when a great metropolitan paper in a notice to its readers asks them to borrow and not try to buy the paper, as the shortage of newsprint limits the size of their edition.

ADVANCE-RUMELY COMPANY.—The earnings of this company during 1919 came quite up to expectations, the balance for the common stock after allowing for preferred dividends, amounting to 12.02% on the $13,750,000 of that issue outstanding.

It will be remembered that the Advance-Rumely Company was formed in December, 1915, as the successor in reorganization to the M. Rumely Company, manufacturers of agricultural implements. The new concern was capitalized for $3,500,000 of Debenture 6% bonds, due December 1, 1925, $12,500,000 of 6% preferred stock, cumulative beginning January, 1919, and $13,750,000 of common stock.

The record of earnings during the four years of its existence has been as follows:

	Net After Charges	% on Preferred	% on Common
1919	$2,401,907	19.21%	12.02%
1918	1,188,929	9.51	3.19
1917	550,557	4.40	...
1916	283,478	2.27	...

We believe that very few corporations can show a record of improvement in four years' time to equal this. Net profits in 1919 were nearly nine times those of 1916. The surplus earnings for the four years totalled about $3,678,000. These earnings have been reinvested in the business, with the result that there has been a noticeable improvement in the financial condition of the company. The outstanding bonds have been cut down from $3,500,000 in 1915, to $962,000 at the close of 1919. Notes receivable were reduced from $7,814,634 to a little more than $3,000,000. Net working capital, after allowing for reserves, stood at $12,720,156, as compared with $12,413,976 the previous year. Disregarding a good-will item of $13,000,000, the net asset value of the Advance-Rumely common stock works out about $32 per share.

To a certain extent, Advance-Rumely was an indirect beneficiary of the war. European food shortages gave a great stimulus to the demand for agricultural implements and the prosperity of the farming classes permitted them to invest in labor-saving machinery. During 1919 this company's plants were run to capacity, the output exceeding that of the preceding year by 100%. The production scheduled for 1920 exceeds that of 1919 by 52% and further additions to facilities are imperative.

For this reason, probably, no dividends can be expected on the common stock in the near future, although there is every prospect of large earnings for some time to come.

UNITED STATES SMELTING.—The annual report of this company for the year ended December 31, 1919, is in many respects the best ever issued, although the final balance for the common stock of $14.07 per share was exceeded in 1916, when a balance for the junior stock issue of $20.49 per share was reported.

The 1916 year, however, was a period of very high prices for all metals. The company turned out a large production of copper and lead on which it made excellent profits and, furthermore, there were no excess taxes to be deducted in that year. In 1919, however, conditions in the copper and lead markets were unsatisfactory. Output of copper was only about 9,000,000 pounds, as against 20,000,000 pounds in 1918 and 29,000,000 pounds in the two previous years. Output of lead was only 68,000,000 pounds, as compared with an average of about 100,000,000 pounds in each of the three preceding years. Last year's splendid earnings were due chiefly to silver, of which the company turned out 17,758,498 ounces, as against 15,337,465 ounces in 1918 and 11,647,205 ounces in 1916. Moreover, the price received for silver last year was $1.12 an ounce, while in 1916 it was only 66 cents.

Federal tax deduction for 1919 came to $1,252,602, a sum which is equivalent to approximately $3.60 per share on the 351,115 shares of common stock.

The improvement in earnings during the latter part of the year is most striking. For the first six months net profits after all deductions equalled about $3.40 a share. In the third quarter they jumped

to nearly $4 a share, and judging from the report for the full year the earnings of the final three months must have been about $6.75 per share of common stock. This would be at the annual rate of $27 per share. The increased earnings are probably due to advancing silver prices and greater production of that metal. During the first half of the year the mills treated an average of 58,000 tons of ore per month, and in the last half year increased to an average of 85,000 tons.

Since the last annual report the company has disposed of its ownership of the United States Metals Refining Company, and has also sold certain securities. Owing to these sales and to large charges for depreciation and obsolescence there have been some important changes in the balance sheet. Property and investments are carried at only $58,000,000, as compared with $71,640,000 twelve months before. Net working capital also shows an increase from $8,705,342 and $10,480,850 in 1917 and 1918 respectively, to $14,770,727.

United States Smelting common stock is now on a 12%, or $6 annual dividend basis, a rate which recent and current earnings would appear to render quite conservative, particularly in view of the probability that while the 1919 earning were largely due to silver, this year will see not only a continuation of high silver prices, but also an improvement in the market for other metals.

AMERICAN INTERNATIONAL CORPORATION.—In the fiscal 12 months to December 31, 1919, American International Corporation earned net for dividends $4,719,167, comparing with $3,716,379 in 1918, an increase of $1,002,788 or 27%.. On the 490,000 shares of full paid stock outstanding at the year's end these earnings were equal to $9.52 per share, or $3.52 per share in excess of the present $6 dividend. This would compare with $7.44 per share earned in 1918 by a similar method of calculation, with $7.50 per share in 1917 and $4.97 in 1916, its first year of operation.

There are serious objections to calculating share profits in this customary way. American International started with $1,000,000 6% preferred stock and $49,000,000 common. By the end of August, 1916, only $50 per share had been paid in. Another $10 was called and paid in 1917. No calls were made in 1918, but the final 40% was called in April a year ago, payable in two equal 20% instalments on June 2 and October 15, 1919.

For the reason that the paid in capital has been so fluctuating it seems a little fairer to figure earnings on the average capitalization employed during each of the four corporate years the company has been in existence. The average amount of capital employed in 1919 operations according to dates of instalment payments was $40,000,000 (80% of $50,000,000 full paid preferred and common). This figure in turn closely corresponds with the amount on which 6% dividends were paid, $39,960,000. On an average of $40,000,000 invested in its business American International earned in 1919 11.6%, which in turn compares with previous years as follows:

1919	11.6%
1918	12.3
1917	12.4
1916	8.0

Of total gross income of $12,327,780 almost exactly one-third or $4,174,668 was derived from interest and dividends. This item of interest and dividends in turn represents dividends on such stocks as Mercantile Marine preferred, United Fruit and United States Rubber. In 1918 the ratio of interest and dividends to the total gross of $7,846,547 was about 30% and in 1917 the ratio was about 45% of total gross.

It is interesting, however, to note that interest and dividends of $4,174,668 in 1919 were $1,716,347, or 70% larger than in 1918. This, undoubtedly, reflects the extra cash dividends paid on Marine preferred on account of liquidation of accrued dividends. The increase in the United Fruit dividend was a smaller item. But the initiation of dividends on United States Rubber common was a very real help. There are good reasons to believe that on its Rubber investment American International is getting an income return of not far from 15%.

The earnings from its wholly owned companies were less last year than in 1918. The net profits before interest and taxes of $2,088,975 compare with $2,394,773 in 1918. One factor in this result was the poor earnings of Curtis, Macy & Co., dealers in tea. Earnings of tea companies last year were mostly conspicuous by their absence as the heavy deficit of the Jewel Tea amply testifies.

It was also a period of transition for Allied Machinery Co. and G. Amsinck & Co. In 1918 this latter company had a most brilliant year. It is now doing a larger import than export business, a tendency which is likely to persist as the bulk of its business is in South American trade. American International now owns all of G. Amsinck & Co., the minority stock being acquired during 1919.

There are no present reasons for looking for any profound change in the American International situation in 1920. Earnings should be good, but they are not likely to expand to a point tempting the payment of more than the present 6% dividend. The company is in strong financial position with working capital of $23,146,592, compared with $6,052,550 at the end of 1918. Of the $20,000,000 paid in on account of 40% stock call it is thus apparent that about $17,000,000 has been employed for working capital.

CALUMET & ARIZONA.—The reports of the copper producing companies for 1919 have begun to appear and most of these, as might naturally be expected, make rather a sorry showing as to the final earnings for the year.

We think it would be a great mistake to place too much emphasis on the earnings statement for this period. In the first place, most of the larger companies were producing at only 50 to 60% of capacity and, secondly, many of them carried over large amounts of copper, technically unsold, valued at very low figures.

A close analysis of these reports would, in most instances, reveal a really far greater earning capacity than at a hasty glance these figures would indicate.

A very good example in point is the Calumet & Arizona, which reports a final net profit of but $524,416, or less than $1 per share. When we come to examine the report, however, we find, in the first place, that this was after an ore depletion charge of $1,380,000. While, no doubt, an entirely proper charge, it does not, of course, draw on the company's cash resources.

Secondly, the company reported at the close of the year metals on hand and in process of $5,316,000 and the statement is made that the copper on hand is estimated at 12½ cents per pound. Today this can be sold at easily 50% more than this. Not only this, but the company has a 70% interest in the New Cornelia's profits and unsold copper.

Summarizing these items, therefore, we arrive at the following:

Calumet & Arizona's profit reported before depreciation	$1,906,000
Profit at current prices on copper held	2,650,000
Share in New Cornelia's profit	640,000
Share in New Cornelia's copper at current prices	1,344,000
Total	6,540,000
Equivalent on stock per share to	$10

Instead, therefore, of a profit of $1 per share, it may be figured, without exaggeration, that the cash results of the operations of the Calumet & Arizona and New Cornelia properties in 1919 yield a benefit to the parent company equivalent to $10 per share.

OTIS ELEVATOR.—The 1919 record of Otis Elevator as presented in the statement to shareholders for the year to December 31 last fully sustains the preliminary estimates.

It shows among other things a balance for $8,108,000 common stock of $19.03 per share contrasted with $9.77 on $6,371,587 common during the 1918 year and $6.42 per share in 1917 on the same amount of common stock.

But the most important gain last year was the decided betterment in financial position. For one thing, Otis Elevator had on December 31 net quick assets of $7,055,762, a gain of $2,247,274 or 47% during the 12 months. These quick assets far exceed any previous total and best of all are accompanied by a very sharp contraction in the item of floating debt.

So recently as December 31, 1917, Otis Elevator was borrowing $6,200,000 from the banks. At the close of 1918 this total had been virtually divided by a 50% reduction to $3,200,000 and on December 31, 1919, was still further radically reduced to but $800,000.

Considering the fact that gross sales are running at record figures, probably 80 to 90% above the 1915 level Otis Elevator is doing exceedingly well to get along with so small an amount of bank debt.

Another important gain in 1919 was made possible by the advance in market price of the common to a large premium above par. This advance in the common induced the conversion last year of $1,623,000 of the debenture bonds, leaving but $1,377,000 outstanding as of December. Since then $1,103,000 more bonds have been exchanged for common at par, leaving but $274,000 outstanding on March 12. This small balance will either be converted or paid off before their maturity on April 1 next.

This means that within a few days Otis Elevator will have no bonded debt and that there will be only $6,500,000 6% preferred precedent to the then $9,485,000 common stock on which 8% dividends were inaugurated at the March meeting. Moreover, the company will have for the first time in its history working capital sufficient to cover the preferred at par. In fact, the balance of net quick at the end of December was equal to the $6,500,000 preferred plus $5 per share on the $9,485,000 common soon to be outstanding.

Otis Elevator as it now appears in retrospect was more hurt than helped by the war, which was a powerful deterrent to new building. And so conversely, if as competent authorities agree, the next few years are to witness more than a normal amount of new construction, Otis Elevator has ahead of it a period of sustained large earning power. The 1920 results would seem to be pretty well assured. The company carried over into 1920 a very satisfactory total of unfilled orders. January and February bookings were the largest of any two consecutive months in its history, so that at present the company virtually has 12 months of forward orders in hand.

1919, generally speaking, was a year of transition and declining profits for steel companies and for many manufacturing concerns employing steel as their raw material. But for Otis Elevator the late year was a transition from war restraint to a greatly enlarged demand and a natural accompaniment of enhanced earning power.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 853 April 16, 1920

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THE GENERAL MARKET.—The week's budget of news has been a mixture of good and bad. We should say that the good news consisted chiefly of the temper exhibited by the public over the outlaw railroad strike. It is very evident that the public are entirely out of patience with this kind of business. There is no doubt that public opinion will win out in this case as it always has in the past. Meantime, however, the interrupted transportation is costing many millions of dollars a day. The Steel Companies won the steel strike last year, but the table of earnings of the principal companies, in another article, shows how tremendously expensive it was to most of those companies. Even with everyone concerned putting forth his best efforts, transportation facilities are deficient enough. With this deliberate interruption, a good many concerns that were barely able to show profits, because of difficulty in moving goods, are for the time being running into actual loss. The discouraging feature about this strike is that it discloses the fact that there are large bodies of laboring men that are beyond the influence even of the Unions, and the latter have certainly been none too modest in their demands. While this particular trouble may be fixed up, we fear it is only a forerunner of numerous disturbances to follow.

We believe that one of the most significant pieces of news is the report of the formation of "Over-all" clubs in various parts of the country. This is more than merely an amusing news-item. One of the underlying reasons for the high prices has been reckless public buying. We believe that the public are getting tired of this. They have the remedy for the situation right in their own hands. There are, to be sure, some commodities like oil and sugar, of which there is an actual physical shortage, that are not being produced in sufficient supply to satisfy normal demands. We do not believe, however, that this is true of most commodities entering into daily existence, and the moment that the public stops reckless buying there will come a distinct change over the commodity market. It is this belief that causes us to look with some apprehension upon the security market, as we cannot conceive of a rising stock market on a falling commodity market.

The increase in the Bank of England rate is one more piece of evidence of the world-wide strain of credit. It becomes more and more evident that the granting of credit has reached a limit in all countries and in all lines. One or two things must take place before the situation becomes easier; either there must be deflation or increased production, and a broader basis for credit extension, and as production cannot well be increased without granting still more credit, it would seem as though deflation were the only solution.

For months past there has been a great turnover in stocks, but the actual advances have been limited to very few issues. This of itself is a danger signal. There are a great many really wonderful investment opportunities today—perhaps a few good speculative opportunities—if taken in the broadest sense, but we cannot but think that so far as the usual movements that interest the public are concerned, there is offered at the present time but little inducement to increase commitments.

UNION OIL COMPANY.—The past six months have been a period of intensive and formative work for Union Oil Company of Delaware.

The company has taken several important forward steps in the last three months, the most important of which have been the absorption of the Commonwealth Petroleum Corporation, the ordering of an initial fleet of four tankers and the purchase of the properties of the Wayland Oil & Gas Company of West Virginia, and 716 acres in Oklahoma, with a settled daily production of about 330 barrels of crude, valued now at $3.50 a barrel.

The absorption of the Commonwealth Petroleum Corporation was a logical development flowing from the community of interest clearly presented at the time Union Oil was formed in August last. As a result of the offer of exchange of 1 1/5 shares of Union Oil for each share of Commonwealth Petroleum over 99% of the latter company's stock has passed into the Union Oil treasury. Commonwealth Petroleum will soon be consolidated into the parent company and disappear as a corporate entity.

The order for tankers which was placed in February calls for four tankers of 46,000 deadweight tons. Two of 12,500 tons each will be built by the Sun Shipbuilding Company and contracts call for March, 1921, delivery. Two of 10,500 tons each built by the Merchant Shipbuilding Corporation should be ready in November and December of this year.

The 12,500 ton tankers are interesting because they contain a new principle in tanker construction which consists in their being equipped to carry 3,500 tons of general package freight on the return trip.

All tankers now in service return to their loading port in ballast. The outward trip, therefore, has to carry a rate for oil which covers the expense of returning empty. The 3,500 tons of general freight would represent the utilizing of about one-third the cargo capacity of the return voyage.

Union Oil will employ these tankers to move its own oil or it can throw them into general tanker service.

The purchase of the properties of the Wayland Oil & Gas Company will, it is believed, prove to have been a particularly happy move. The Wayland Oil has an old settled production of 265 barrels of the highest grade Pennsylvania Oil, commanding a market price of $6.10 per barrel. The Wayland Oil & Gas controls oil rights or owns in fee nearly 23,000 acres and 50% of this acreage is undeveloped. The possibilities, therefore, favor a considerable increase in this high quality output.

It is believed that this Wayland Oil purchase will show an earning power equal to 25% on its cost based on the present output only.

Union Oil has now outstanding 1,200,000 shares of no par value, an increase of 200,000 shares since date of organization. All of this increase was incidental to the absorption of the Commonwealth Petroleum Corporation.

While the expansion of the company had been rapid it has been along proven lines. The outlook is for a year of good earnings in 1920.

OMAHA & COUNCIL BLUFFS STREET RAILWAY COMPANY.—Comparative Earning Statement year ended December 31:

	1918	1919	Increase
Gross income	$3,359,116	$4,176,923	24.3%
Operating expenses, taxes and rentals	2,502,344	3,173,200	26.8
Net income	$856,772	$1,003,723	7.1
Interest charges	486,975	486,893*	
Balance	$369,797	$516,830	39.8
Depreciation fund	300,000	300,000	
Balance for dividends	$69,797	$216,830	

*Decrease of $82.

Net income for the 1919 year amounted to $1,003,723, as compared with $856,772 for the previous year, an increase of $146,951, or 17.1%. Net income for the month of December, 1919, showed an increase of 122% over the corresponding month of the previous year.

The balance sheet as of December 31, 1919, shows the company to be in comfortable financial circumstances with current assets of $1,287,156, of which $646,641 is cash. Current liabilities amount to only $469,003.

ISLAND CREEK COAL.—In a year that was by no means remarkable for coal profits in general, the results attained by the Island Creek Coal Company stand out conspicuously. With a production smaller than in any of the last five years, the earnings per share were the largest in the company's history, excepting only 1917. With a very moderate price for coal, in comparison with other commodities, these results emphasize what is undoubtedly the fact that the Island Creek perhaps is as low cost a producer as there is in this country. The record for the last four years has been as follows:

	1919	1918	1917	1916
Tons coal	1,781,413	1,891,375	1,933,805	2,280,661
Net profit after all charges and taxes	$1,184,001	$1,131,763	$2.185.529	$1,125,566
Earnings per share on common	$7.40	$7.00	$13.55	$6.96

One fact that might well be brought out is that at the close of the year the company had net quick assets, excluding reserves, of $3,327,000, which is equivalent to $66 a share on the preferred stock, making of that issue a particularly strong investment security, especially for a mining company.

In the first months of the present year, the company was naturally somewhat handicapped by weather conditions, so that its shipments fell off a little as compared with the same period of last year. Now, however, with a free market for coal, and an excellent demand, both production and profits should show decided advances.

Attention for some time past has been focused—and quite justly so—on oil as a fuel, and on the oil securities. It must be remembered, however, that there is a limit to the production of oil, and also a point at which the advance in the price of oil brings coal again sharply into competition, even where the oil is available.

THE STEEL COMPANIES IN 1919.—Now that the leading steel producers have reported the results of their 1919 operations, we believe it should prove interesting to compare not only the operating figures, but also the present financial condition of the six largest units in the industry. We have, therefore, prepared the following table, showing the earnings and production for last year, and orders on hand, working capital, and surplus earnings after all dividend payments for the last five years:

	U. S. Steel	Bethlehem	Republic	Midvale	Lackawanna	Crucible
Gross sales, 1919	$1,448,557,835	$281,641,908	$45,872,344	....	$34,967,802	....
Net income, 1919	76,794,582	15,356,860	2,141,196	$10,588,605	356,862	$7,240,782
$ on com. stock	10.14	19.88	1.43	5 29	1.02	21.96
$ paid in div.	5.00	7.00	6.00	4.50	6.00	7.50
Surplus	$26,159,780	$7,746,765	def. $1,241,491	$1,588,605	def. $1,749,153	$3,615,782
Unfilled orders, Dec. 31, 1919	8,265,366 tons	$251,422,545	486,379 tons	....	248,405 tons	....
Prod. finished steel	11,997,935 tons	....	702,040 tons	826,925 tons	603,876 tons	....
Net Working Capital Dec. 31, 1919	$515,224,125	$88,638,254	$23,610,604	$87,432,450	$21,277,715	$28,634,903*
Asset value stock, Dec. 31, 1919	249	219	224	79	189	283*
Five-year surplus earnings	$420,911,000	$88,245,000	$27,855,000	$76,027,000	$27,039,000	$38,403,000*
Per share com. stock	84	147	102	38	77	153*

*Figures for period ended August 31, 1919.

Despite the fact that 1919 was on the whole an unsatisfactory steel year, four of these companies, United States Steel, Bethlehem, Midvale and Crucible succeeded in making what would have been considered a very satisfactory showing in pre-war times. Orders on the books at the close of the year were sufficient to keep the plants busy for a good part of 1920, and if the Steel Corporation may be taken as a criterion, there has been a considerable increase in forward business since the first of January.

Perhaps the most striking feature of this comparison is the large asset value behind the common shares of all of these concerns. This is largely the result of the great prosperity of the war period which enabled the corporations not only to pay good dividends to stockholders but to greatly improve their financial condition. It is rather striking that every one of the companies has an asset value for its stock much in excess of the current market price of its stock, and that the surplus earnings of the last five years alone are pretty close to the present market price, except in the case of Crucible. That the steel companies are in excellent shape to weather a period of poor business is shown by the record for last year—a fact which should augur well for their possibilities under satisfactory conditions in the steel trade.

SOUTHERN PHOSPHATE CORPORATION.—When this company was formed early in January it was estimated that the 1920 production of high-grade rock would approximate 290,000 tons. On this basis and assuming a profit of $2.50 per ton it was figured that net profits this year might conservatively be expected to reach $750,000, a sum equivalent to $6 per share on the stock.

The company has been in quantity production with its three plants in operation for the last month and the prospects are that 1920 output of high-grade rock will reach at least 250,000 tons.

But the prices at which Southern Phosphate has recently been booking contracts have been so favorable and so considerably in excess of the selling prices assumed at the time of organization that net earnings for 1920 should fully equal the $750,000 estimate made in January. In other words any deficiency in output below 290,000 tons should be compensated for by higher selling prices.

The only problem which the company is facing at present is production. It has on its books contracts calling for practically every ton that can be mined during the balance of 1920.

The demand for phosphate rock seems to be world-wide in scope. Even points as distant as Japan are buying Florida rock and Southern Phosphate has only recently completed delivery to a Japanese buyer of 4,000 tons of 74% rock.

The price on this contract was $10 per ton. It will cost $20 per ton freight to deliver the rock in Japan, which means a total cost price to the Japanese purchaser of $30 per ton or better.

The demand for high-grade rock has been so keen that prices for 77% rock, the highest grade, are now ruling at $13.50 to $14 per ton. This is $2 to $2.50 per ton in excess of the prices assumed at the time the original earning estimates for 1920 were prepared.

Due to the heavy demand for fertilizers for American domestic consumption and because of the shortage of phosphate rock resulting from the recent seven months' strike, several fertilizer companies have found that to manufacture their 1920 production of complete fertilizers they must buy rock in the open market. Southern Phosphate has booked several such orders. They call for considerable tonnages of rock running as high as 77%.

It is increasingly apparent that due to actual shortage in supply, Europe will be able in 1920 to get but a fraction of the high-grade American Phosphate rock it would like to buy. The carryover of unfilled demand into 1920 should, therefore, be a heavy one.

WESTERN UNION TELEGRAPH.—The Western Union Telegraph Co. reported for the year ended December 31, 1919, net earnings after bond interest of $13,083,657, the equivalent of 13.11% on the $99,786,726 of capital stock outstanding. In 1918 the percentage remaining for the stock amounted to 11.64%, and for the past five years the annual average has been 12.58%. Current dividend requirements call for 7% yearly.

During the first seven months of the year the land lines were operated by the Government and the company received only the Federal compensation agreed upon in the contract signed with the Postmaster-General in 1918. This compensation for the seven months amounted to $5,184,297. The actual operating revenue of the land system is said to have been less than the guaranteed compensation. The cable lines were under Federal control from November 1, 1918, to May 2, 1919, but the figures were kept by the company as if operated for its own account.

An interesting sidelight on Federal control is seen in the statement in the annual report that during 1919 Government messages were carried at $3,200,000 less than the cost of operation, while had these messages been transmitted at commercial rates, gross revenue would have been $4,500,000 more. The former figure is equivalent to about $3.20 and the latter to about $4.50 for each share of stock.

On April 1, 1919, the Postmaster-General ordered an increase of 20% in domestic telegraph rates. These increases are still in effect and have been responsible for a big improvement in net revenue. The net for the second half of the year came to about $10,500,000, as compared with only $7,200,000 in the first half year. Looking at it from another point of view, the net for the first three months under the old tariffs was at the annual rate of only $7,700,000, while during the balance of the year it ran at the annual rate of $20,000,000. In the best previous period the company ever had, 1917, when share earnings were 14.40%, the net operating income totalled only $18,124,510.

Of particular significance is the income statement for the first quarter of 1920, with March partly estimated. This shows a net income after all deductions and bond interest of $3,550,000, which is at the annual rate of $14,200,000, or the equivalent of approximately 14.2% on the stock. It is not, perhaps, safe to count on the continuance of any such earnings as these. For in the later months of 1919 there was discernible a diminishing tendency on the part of net due to increasing costs.

Nevertheless, under any conceivable conditions the Western Union would seem to be in a position to earn a good margin over and above the 7% dividend requirements.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 855 April 30, 1920

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THE GENERAL MARKET.—This week has seen the publication of several important industrial reports—nearly all of them very favorable. The reception accorded these has been significant. It is one more illustration of the fact that the market is a barometer and not a thermometer—that it is constantly attempting to divine the next industrial movement and thus, often disregards present developments, unless they are entirely unexpected. The fact is that while most of the comment on these reports has dwelt on the large earnings shown—itself a matter to do with the past—the important feature is really to be found in the balance sheets. Analyzing these, one generally finds very heavy inventories which, even if taken at cost, must be at far above normal valuations. Against these are generally heavy bank loans. There is an element of danger here which must not be overlooked.

Labor is still restive, and instead of showing signs of becoming more efficient the reverse, if anything, is true. The dislocation resulting from labor troubles is evident from the difficulty shown in bringing production back to the point it was before the outlaw railroad strike. The industrial law recently passed in England provides that a man's wages shall be based not on the cost of living but on the value of work done. Such a ruling in this country would go far toward curing our present evils.

The stock market is in a critical position. There has been quite a little improvement in the position of banks in Eastern cities, not enough perhaps to permit the financing of any upward large movement, but enough so that further pressure to force liquidation in securities is hardly necessary. A further decline, therefore, would be due to deeper-seated causes than a temporary banking stringency. It would have to be ascribed to a growing conviction that a period of commodity deflation has been definitely entered on; that with the price of staple articles tending downward, the profits of corporations can hardly be expected to be maintained at anything like recent levels. We have, unfortunately, become so used to these frightfully high prices that we have almost begun to forget how abnormal they are. Abnormal, however, they certainly are, and bear in mind that nothing that is abnormal can be permanent. All are agreed, at least theoretically, that the best method of return to a normal healthy condition is by gradual deflation. We believe considerable influence is being brought to bear—and quite properly—to accomplish this. If it is not accomplished gradually and in an orderly manner, the final break will be all the more severe. The decline of the last three weeks has done much to strengthen the technical position of the stock market, which is indeed, we believe, now not at all weak. Further attacks might easily bring about such an over-sold condition as to result in quite a rally. If, however, this selling movement is a forerunner of a general let-down, industrially, there is no inducement to take a broad constructive position. Only the belief that the period of inflation will continue indefinitely would warrant this, and we do not believe that this is sufficiently assured.

UNION PACIFIC.—Among the great railroads of the country which appear to have successfully weathered the many years of adversity and depression, Union Pacific in many respects stands pre-eminent.

The statement for the fiscal year to December 31, 1919, showing $13.70 a share earned on the $222,293,000 common, after all prior deductions, reflects a gain in the common share balance of nearly $1 a share, as compared with 1918. It is interesting in studying this company and determining the margin of safety for the maintenance of the present $10 dividend on the common to note that apparently Union Pacific, if it were allowed to earn but 6% on the book value of its road and equipment plus the uncapitalized property represented by its profit and loss statement, would be able to show a balance for its common stock slightly in excess of the present $10 dividend distribution. This is without any consideration for the $12,000,000 or more of income from investments.

Union Pacific carries its road and equipment at $623,598,727. In addition, it has a profit and loss surplus representing moneys which have been reinvested in plant and equipment of $130,965,902. The total of these two items is $754,564,629. A 6% return on this property investment would be equal to $45,273,877.

Union Pacific has outstanding $355,066,174 of bonds on which the average interest rate is 4.24%. In addition it has $99,543,500 preferred paying 4% in dividends and $222,293,100 common paying $10 a share. The aggregate charge on these three classes of securities is $41,265,703, which is almost exactly $4,000,000 less than a 6% return would be on the book value of its property which, of course, obviously is far less than any physical appraisal is likely to discover.

Stated in another way if Union Pacific is allowed to earn 6% on its physical assets, taking them at

the very conservative figures at which they are carried in the balance sheet, it would then have in addition between $12,000,000 and $13,000,000 of income derived from its $200,000,000 of investment in securities of other railroads. The sum of these two items, or $58,273,877, would leave a balance for the common stock of slightly better than $17.50 a share after deducting interest on its bonds and 4% on its preferred stock. This is an exceedingly strong showing and one which would seem to demonstrate pretty conclusively the integrity of the present common dividend distribution.

It is interesting to note in analyzing the detailed figures of operating expenses for 1919 that Union Pacific devoted to maintenance of way and maintenance of equipment, a total of $57,179,987, compared with $44,682,409 in 1918, an increase of slightly better than $12,500,000. Even allowing for greatly expanded labor costs, it is a fair assumption that Union Pacific in 1919 very considerably increased its amount of maintenance work. Of the total operating expenses of $121,772,706 maintenance accounted for 47%, compared with 44% in 1918. In other words, of an increase in operating expenses of $20,553,930, slightly over 60% is accounted for by this very satisfactory increase in the outlay for maintenance of way and maintenance of equipment.

UNITED FRUIT.—Net earnings of United Fruit so far this fiscal year have been running at a rate 35% in excess of the corresponding period of 1919. It may be recalled that as a matter of convenience in connection with preparation of its income tax figures, United Fruit in 1919 changed the date for the closing of its fiscal year from September 30 to December 31. The first four months of the current fiscal period, therefore, expired on April 30. During this period the company earned substantially more than a full year's dividend at the present 12% rate on the $50,388,000 capital stock.

United Fruit should produce this year a sugar crop of 900,000 bags. This is a reduction from the earlier estimates, which were for a crop of 1,000,000 bags. Due to its special geographical location its two Cuban sugar properties are able to grind two to three months after the great majority of Cuban mills have closed down on account of the advent of the rainy season. There is no reason to suppose that this usual practice will have to be altered in 1920.

The company has actually produced to date about 370,000 bags of sugar, so that if the 900,000 bags crop is attained it involves the future production of over 500,000 additional bags of sugar. The two mills have a theoretical capacity of 1,200,000 bags, but have never reached this total.

United Fruit is highly unique among the large Cuban sugar producers in that 100% of its cane is "administration cane." The company has never had the colonos system and this year its complete ownership in its cane will confer a most abnormal earning power on the company. The policy of United Fruit is to refine as much of its raw sugar as possible at its own Revere Refinery which, with a capacity of 3,000 barrels per day, could take care of its entire crop of raws. Due to adherence to this policy United Fruit has been very conservative in selling its 1920 crop. Only two cargoes have been sold to outsiders and of the crop so far ground 20% is still unsold. United Fruit stands to reap the benefit of 18-cent sugar on probably 55 to 60% of its 1920 crop, a most unusual selling position and one not duplicated by any other large Cuban producer. From sugar alone there is a strong probability that the company will earn this year a sum equal to $40 per share before taxes.

It is undoubtedly recognition of this fact which accounts for much of the recent strength in the stock.

The fiscal 15 months to December 31 last showed a stock balance after all deductions of $40 per share. The current fiscal 12 months, even with very heavy Federal taxes, should closely approximate this record.

The fruit department is in sound trade position. Banana importations in 1920 will be about 40% larger than in 1918 or 1919. The company is getting the crop results of its heavy banana plantings in 1919 and by next year will be in position to bring in 100% more fruit than in 1918, when shortage of ships was greatly reducing its fruit supplies. One thing is certain and that is that the company has made a most determined effort to increase its volume of fruit business and in time this will be reflected in lower cost of production and lower selling prices.

There has been much gossip in financial quarters about a stock dividend. The fairest possible statement is that the question is entirely undecided. It has received no formal consideration. The company's strong financial position, its surplus by December 31 next of over $100 per share and a conservative asset value for the stock of over $300 per share would sustain a reasonable stock dividend. But as the Fruit Company has grown in financial prowess it has also grown in conservatism and there will be no rush to adjust the balance between the assets and share capital.

The treasury position continues remarkable. The company has more cash than at any previous period. It is spending $8,000,000 on eight new steamers, including four new sugar boats for fall delivery, but these boats are payable over a 15-year period and impose no immediate heavy cash outlay.

UTAH COPPER COMPANY.—Naturally, the Utah Copper Company did not escape the effects of the extremely unfavorable conditions that prevailed in the copper industry during 1919, with its low price of copper and curtailed production. If one will look, however, beyond the immediate financial results, one will find a number of features as regards operating results which are of great importance to anybody who is concerned with intrinsic value as a criterion of what may be expected under more nearly normal conditions. The outstanding feature, it seems to us, is that excluding consideration of Federal taxes, the 1919 operating expenses as compared with 1918 expenses were reduced about $12,000,000, this reduction in cost being in

direct proportion to the voluntary reduction in output. The operating cost to produce 105,000,000 pounds in 1919 is shown to be 14.14 cents, as against a production of 188,000,000 pounds at 14.33 cents in 1918, excluding the item of Federal taxes as stated. Applying the usual credit for "Income from Precious Metals and Miscellaneous Sources" in reduction of costs, the per pound cost for 1919 was 12.36 cents, as compared with a similarly computed net cost of 12.53 cents per pound for 1918. We do not at the moment recall any other company which was able to effect a decrease in costs, in the face of such a heavy proportionate curtailment of output. Nor is the secret of this reduced cost, in the face of a reduced output, to be found in the treatment of an appreciably higher grade of ore. The average for 1919 being 1.26% copper, as against 1.23% in 1918. A good part of the reason is, no doubt, to be found in the greater efficiency of mill work that was possible with a somewhat reduced average tonnage treated. For instance, the average recovery for both plants last year was 78.46%, corresponding to 19.72 pounds of copper per ton, as compared with 65.11% and 15.97 pounds per ton in the previous year. It was also possible to increase the average grade of the concentrates from 16% to nearly 20%, which would mean a considerably lower smelting charge. Altogether, the record is one that further disproves the old theory that a low-grade property of this kind would not be able to adapt itself to changing industrial conditions.

That the company was well justified in disbursing in dividends and capital distributions $1,500,000 more than it reported in earnings, is shown by its statement of net quick assets, which at the close of the year amounted to over $27,000,000. Of this, over $13,000,000 was in "Metal Inventory," which was 50% in excess of the same item at the close of 1918. Unlike the large inventories of raw materials reported by companies in other lines of business, there is in this item an element of strength and not of weakness, as there can be no doubt that this asset can, and will, be liquidated at much above the price at which it is carried on the company's books.

SOUTHERN PHOSPHATE CORPORATION.—It will be recalled that this corporation was organized in December, 1919, and took over the operation of the Export Phosphate Company and the Standard and Lakeland plants on January 1. Operations were started at the Export plant the early part of December, at the Lakeland plant the end of December, and at the Standard plant the latter part of February.

The following table, showing production and deliveries of rock, indicate the very rapid progress made in operations:

	Production Tons	Deliveries Tons
January	6,127	2,950
February	10,915	6,081
March	15,176	6,832
Total	32,218	15,863

Continuous progress is expected in the matter of production which, according to present plans, should reach 25,000 tons a month for July. In the matter of sales, the corporation has been particularly fortunate in finding a very strong market for its product, so that it has already booked a large part of this year's production—all new orders—being at prices substantially above those originally anticipated.

While production operations are still more or less in a development state, preliminary figures on costs are very gratifying, and assure costs well within the original estimates of the management under present operating conditions.

In short, Southern Phosphate for the year 1920 gives every indication of actually realizing the profits estimated at the inception of the enterprise, namely $750,000 net, for the first year of its operations.

NATIONAL ACME COMPANY.—National Acme, like most manufacturing enterprises that had been speeded up during the war period, experienced some let-down in business after the ending of hostilities. There had been up to that time a very large increase in the manufacturing capacity and production of this type of product. This situation involved for some time thereafter severe competition and a lowering of prices. This condition was thoroughly cleaned up by the latter part of 1919, and since that time the company has gone ahead rapidly. For the first quarter of this year, National Acme reports sales of $4,847,518, against $2,700,684 for the same period of 1919—a gain of 80%—while the net profits before taxes have jumped from $756,631 in the first quarter of 1919, to $1,661,641 in the same period of this year, an increase of 120%. These earnings before taxes in the first quarter of 1920 were at an annual rate of over $13 a share on the stock.

The condition of the company's books would indicate that this rate of earnings might fairly be expected to continue. Unfilled orders as of the first of April were not far from four times what they were a year ago, and even since the first of the year have nearly doubled.

As might be expected from these earnings, the financial position of the company continues to increase in strength. As of the first of this month, the company had net quick assets of $9,250,000, which sum alone is equal to $18.50 per share on the stock.

UNITED STATES STEEL.—Although the speculative community affected to be disappointed at the failure of the Steel directors to declare an extra dividend, there was really little reason to expect such a declaration after the remarks of Judge Gary at the recent annual meeting of the stockholders. The statement of net earnings, however, for the first quarter of 1920 makes a very gratifying showing.

The total net after all expenses, including estimated excess profits and income taxes amounted to $42,089,019, the largest reported since the third quarter of 1918. After allowing for preferred dividends, the balance remaining for the $508,302,500 of common stock was $19,726,866, or the equivalent of $3.88 per share. This would be at the annual rate of $15.52 per share, as against current dividend requirements of only $5 a year. In the last quarter of 1919, $2.20 per share was earned and in the entire 1919 year, $10.14.

Perhaps the most striking feature of the statement is the increase in earnings during the quarter. The month of March produced a net of $15,704,900, as compared with $12,880,910 in February and $13,503,209 in January. The March results, if continued for a full year would figure out at the rate of over $19 per share annually for the common stock. It is rather significant too that these earnings were made on the same prices which have been maintained more than a year, and after a 10% wage increase which went into effect the first of February. It is not likely, however, that April will keep up to the March standard, because of the railroad strike, which is even now seriously curtailing operations in the steel industry.

Since the organization of the Steel Corporation in 1901, it has earned in excess of all charges and dividends a total of $748,542,625, or $147 per share for the common stock. A total of $89.50 per share has been paid to the holders of the junior security in dividends. But before arriving at net profits, there was charged off for depreciation, sinking funds and repairs, $1,424,416,000. As of December 31, 1919, the net working capital stood at $515,224,125, of which $166,726,805 was cash.

These figures reveal a financial strength, which can be surpassed by few big corporations, and the record of earnings during 1919, a poor steel year in nearly every respect, and so far in 1920 would indicate a stability of earning power which under favorable conditions might well be expected to find reflection in the market price of the common shares.

AMOSKEAG MANUFACTURING COMPANY.—The Amoskeag Manufacturing Company has just declared a stock dividend of 100% and by declaring a quarterly dividend of $1.50 per share on the new stock has placed this issue on a regular $6 basis, which means an increase from a $5 to a $12 basis.

In addition, it has voted to cancel 15,200 shares of preferred stock which have been acquired from time to time in the open market. The capitalization will now consist of 100,000 shares of preferred and 345,600 shares of common stock. This company represents the largest cotton mill property in the world, consisting of 600,000 cotton spindles and 60,000 worsted spindles, besides a power plant, a bag mill for using up waste material, a dye plant, a bleachery, etc., in fact, everything that goes to make up a complete textile plant. In addition, it owns a wonderful water power, which saves a very large amount of coal a year, and which is a gold mine in itself.

The Amoskeag Company manufactures ginghams and knap goods, which are standard goods, and for which there is always a market in bad times as well as good. It is interesting to note that gingham clubs are now being formed in some parts of the country, as well as overall clubs. The company is so large a manufacturer of ginghams that it has a very valuable trade-mark in the "Amoskeag" ginghams, which are known the world over.

The management of this property has always been one of the most conservative and ablest in the country and when one realizes that this recapitalization only partially recognizes the values that have been built up in its long business career and practically does not touch the large balance of net quick assets, it would seem as though the shares of this company still presented large possibilities for the patient holder.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—On the whole, the week's developments have been favorable. The most constructive has been the inauguration of steps to raise railroad rates. To put the railroads on a basis where they could once more earn money and attract capital would be to restore the second most important industry in this country to a position it has not occupied for many years. The danger would be that this might start again the old vicious circle of higher wages, higher prices, etc. It could, however, be so easily demonstrated that the advance in railroad rates would of itself increase the cost of articles transported, so little, that this could be only an excuse and not a reason for higher wages. In short, capital invested in railroad properties is entitled to a living wage as much as are the employees. Denial of this wage has been one of the great inequities of the past decade.

It has also been further demonstrated that in spite of the large issues of the last few years, there are plenty of funds available, on attractive terms, for high-grade railroad securities. This means that at least those companies in a position to command these funds will be able to purchase necessary equipment, though whether the directors will consider it wise to do so in large measure at these prices, is another matter.

We are inclined to believe that the wave of reckless extravagance has reached its crest. Once pass over the line from spending more than income to spending less and there is introduced an element that will eventually prove the saving of the situation.

These are the strong features. On the other hand, there is no doubt that a lowering of prices in many commodities has set in, and while this process is going on, some recession in corporate earnings is inevitable. Labor and money still make improbable any great improvement marketwise or otherwise. Labor unrest is still playing havoc with production and promises to continue to do so. The immediate pressure on Eastern banks seems to have been relieved, but commercial rates the country over are still high and tending to advance. The drop in the Bank of England's reserves to a lower point in proportion to its liabilities than at any time during the war is a feature not to be overlooked. English bankers have been very courageous in the free use of credit for the rehabilitation of their industries, but there is a point beyond which even they would not dare go.

We have been somewhat taken to task for what has been termed the "bearish" tone of our letters for the past four or five weeks. We have tried at all times to make it clear that we have not had, and we have not now the slightest patience with those who talk "panic" and business prostration, but we did believe, and we believe now that the pace was getting too fast and that some deflation was necessary if greater disaster were to be avoided. So far as the market is concerned, the over-extended situation has been largely corrected, and to some extent, commercial deflation discounted. While there is getting to be more and more reluctance to pay high prices for commodities—itself the surest cure for those prices—there is no question that there is a tremendous latent demand for goods and materials of all kinds when they become more reasonable in price. People may get along for a time with less, but this does not correct the shortage. This latent demand is assurance that business will continue on a large and healthy scale until that shortage is supplied—a process certain to take a long time—possibly several years.

We have, frankly, no very strong convictions toward the market either way at the present level. The decline of the last few weeks has brought the price of many stocks down to figures where people may well consider beginning to accumulate them. This is particularly true of those shares representing commodities in the greatest shortage, or one like copper. The latter is the only important raw material which has fared badly in the turn of economic events in the past two years. Now this situation has been straightened out and coppers are today perhaps the only stocks aside from railroads, where there is no suggestion of inflation as compared with pre-war levels. On the other hand, there are commodities where we feel that production is catching up quite rapidly with consumption, but whose shares are still far above normal levels. The market has, we believe, reached a point where the forces, pro and con, are fairly evenly matched, and the general average is likely to move sidewise for some little time. Meanwhile, bargains have begun to appear, and one should be in a position to take advantage of them.

PUNTA ALEGRE SUGAR.—Up to the second day of this month, the three plantations of the Punta Alegre Sugar Co. had produced 556,983 bags of sugar, as against 510,897 in the same period last year. The next few weeks will be a very critical time for this, as for other Cuban sugar producers. With reasonably favorable weather conditions, the Punta San Juan plantation will continue to grind well into June, and this would assure the company the full production that was estimated at the beginning of the year. Weather conditions throughout the island generally have been very unfavorable, so that earlier estimates

have almost invariably had to be revised downward, and Cuba would do well now to produce as much sugar as it did last year, as against earlier estimates of a crop 500,000 tons in excess of that of 1919. Punta Alegre is sure of going well in excess of last year's production, and in all probability will come much nearer to its original estimate than the average plantation, thus doing its full share to relieve the sugar shortage.

While the company will perhaps receive a somewhat higher average price for its crop than the general run of Cuban producers, owing to not having made heavy sales of the sugar before it was actually harvested, there has been no disposition at any time to hold out for any fancy prices. On the contrary, the management have adopted a policy of disposing of the balance of the crop at market prices as rapidly as transportation facilities are available.

The net value of the sugars made to date, in excess of the seasonal borrowings is now very close to $5,000,000, and this figure is likely to be considerably exceeded by the time the balance of the crop is disposed of.

ISLAND CREEK COAL.—The same evidence of under-production which has been so powerful a factor in pushing upward the prices of oil and petroleum products has entered the bituminous coal markets of the United States. At the moment the leading soft coal companies are not able to supply even under the most favorable conditions more than 70% of the coal needs of their old established customers. Under the circumstances the soft coal mines are rejecting all new business and have almost unanimously refused flattering export offers. We hear of one export order for a foreign government amounting to several hundred thousand tons in which the coal producer was asked to name its own selling price. This order, tempting as it was, had to be pushed aside.

It may be recalled that at the close of March a labor award was granted to soft coal miners. This award adds 25 to 30 cents per ton to the production cost of coal and it will obviously be borne by the consumer.

Underproduction of coal in 1919 following the demoralized markets succeeding the November armistice, the severe winter of 1919–1920, labor unrest, strikes and car shortage have been the most potential factors converging to produce the present coal shortage and high resultant prices.

Many of the soft coal companies have had just cause to complain of poor car supply, but labor has been partially dissipated into other industries due to poor coal conditions in the first half of 1919. With 100% car supply there are plenty of soft coal mines which could not reach on account of labor shortage the average output of the five years, 1914–1918, inclusive.

A temporary but unusual condition exists in the soft coal industry in respect to contracts. Normally the coal year begins April 1, when yearly contracts expire. The April 1 price broadly speaking, therefore, governs the selling price of the ensuing 12 months. Due to the unsettled wage question no serious attempt was made this year to renew contracts expiring April 1, nor have they since been renewed. For the time being the entire output of Island Creek Coal, for example, is being sold as transient coal. Naturally the company is devoting its entire energies to taking care of its established line of customers. Eventually the contract selling arrangement either on a three month or yearly basis will be restored.

Island Creek should, however, have in 1920 a year of excellent results and profits for the 118,000 shares of common will, undoubtedly, exceed by a considerable margin the $7.40 per share earned in the 12 months to December 31 last. That showing, however, was an excellent one, relatively better than the majority of soft coal producers. This year the company may easily come within hailing distance of the $13.55 per share earned in the big coal year 1917.

The tendency of certain commodities to decline has been much commented on in recent weeks. Many good authorities predict an era of commodity decline before 1920 is much older. But there are certain commodities of which there is an actual and serious physical lack. Bituminous coal seems plainly to be one of these and there is furthermore little probability that this lack can be remedied in a short time period. Soft coal, oil, paper and sugar are four commodities in which the evidence of physical shortage is very plain and impressive. Whether their price tendency will flow contrary to the current market no one can say definitely. But so far as 1920 is concerned low cost coal producers, like Island Creek Coal, seem destined to fare very well.

CRAMP SHIP & ENGINE CO.—By voting a stock dividend of 150%, Cramp & Sons Ship and Engine Co. directors have decided to capitalize a large portion of the $10,968,566 surplus which it possessed on December 31 last. This surplus was equal to $179 per share. The stock dividend will, therefore, have the effect of increasing capital stock from $6,098,000 to $15,245,000. At the same time it will leave approximately $1,800,000, or nearly $30 per share in surplus account without allowance for 1920 earnings. This stock dividend is a liberal recognition of the company's properity in recent years.

In 1918 the date of the fiscal year was changed from April 30 to December 31. Net earnings for the five years and eight months to December 31, 1919, disclose a balance for the $6,098,000 stock of $132 per share, of which about $115 had been withheld from shareholders and either reinvested in the business or used to reduce bonded debt. It is interesting to note that this 150% stock dividend not only takes full cognizance of earnings during the war period, but also gives recognition to stockholders for the long period from 1903 through April 30, 1916, in which no cash dividends were paid.

Cramp Ship & Engine Co. was splendidly equipped to take advantage of the crisis in governmental and mercantile demand which the war presented. Its plant facilities have been expanded in a healthy

way during the last five years. All through 1919 the Cramp yards were 90% engaged in Government work. This work has carried over into 1920 in volume sufficient to insure capacity operations throughout the balance of the year and well into 1921. The pressure of Government work is so keen and has absorbed so large a portion of plant facilities that the company cannot take on commercial work for a long time to come.

The creation of an American merchant marine should logically operate for continued good business for the Cramp Ship & Engine Co. The company possesses a rather unique equipment and experience for repair work. Immediate pressure of Government construction has temporarily obscured the importance of this phase of its business. But it is confidently believed that it will prove an important back-log should the time arrive when new construction has become less urgent. For the Cramp yards are one of the few complete shipbuilding units in the country capable of building an entire ship, not only hull, but engine as well. And the same argument applies to repair work.

The fiscal year to December 31, with earnings of $2,958,286, showed a gain of $502,887, or 20.5% over 1918. Share profits of $34.51 were better than 5½ times the $6 dividend. During 1919 the company reduced its bonded debt by $1,500,000 to $2,998,440. As of April 30, 1917, this item stood at $5,426,444 and in 1913 was $6,175,344. This relatively large cut in bonded obligations was accompanied by a $471,727 decrease in quick assets, which at the close of 1919 stood at $3,502,078, or actually $503,634 in excess of the par of its bonds. This is the first time Cramp has ever had quick assets equal to or greater than its bonds.

No declaration of dividend policy on the stock after the stock dividend has been paid has yet been made. It is a fair assumption, however, that the actual cash return to present shareholders will be larger than during the past three years. The present $6 dividend has entailed disbursement of $360,000 per annum. A $4 dividend on the $15,245,000 stock shortly to be outstanding would call for $609,000, a sum equal to 10% on the present stock.

In addition to its intense activity in steamship construction Cramp Ship & Engine Co. maintains an important hydraulic department which has built some of the largest hydraulic turbine apparatus ever installed by power companies.

POSSIBLE PROFITS FROM COPPER INVENTORIES.—As a result of very unsatisfactory conditions in the copper metal market during 1919, practically every big producer of the red metal entered 1920 with a very large supply of copper on hand. In a good many cases these metal inventories were carried at a figure lower than the actual cost of production last year, which perhaps accentuated the discouraging showings made in income statements and profit and loss accounts.

Now that copper is moving more freely than for some time past and there is every prospect of a brisk demand for the metal in the latter part of this year, even if a positive shortage does not develop owing to curtailment of production, these metal inventories hold possibilities for a good profit.

We have prepared the following table showing the valuation of copper on hand at the close of 1919 in the case of some of the leading companies that have already issued their annual reports, together with the estimated profit to be made if this metal can be sold this year at 20 cents a pound. It has been necessary in many instances, to estimate the figure at which the metal has been valued, and any such computation is, of course, of the roughest nature, although it does, we believe, indicate the extent to which these companies might be expected to benefit from a good copper market. Any increase in price above 20 cents a pound would increase these profits and in view of the small current output of the mines in this country any active buying movement might advance the price materially above that level:

	Value Copper on Hand Dec. 31, 1919	Carrying Price	Value at 20c. Copper	Profit	Per Share
Ahmeek	$1,342,000	13.5c.	$2,000,000	$658,000	$3.29
Calumet & Arizona	5,315,000	13.5*	7,860,000	2,540,000	4.00
Calumet & Hecla	6,166,000	19.0	6,500,000	330,000	3.30
Chino	5,280,000	13.5	7,820,000	2,540,000	2.90
Copper Range	1,904,000	15.0*	2,540,000	636,000	1.60
Inspiration	6,118,000	13.5	9,060,000	2,940,000	2.45
Isle Royale	1,278,000	15.8	1,600,000	322,000	2.15
Kennecott	3,189,000	10.0*	6,378,000	3,189,000	1.13
Nevada Consolidated	8,130,000	13.5	12,000,000	3,870,000	1.93
New Cornelia	3,840,000	13.5*	5,680,000	1,840,000	1.02
Old Dominion	4,300,000	15.0*	5,730,000	1,430,000	4.43
Osceola	1,100,000	17.5	1,260,000	160,000	1.66
Ray Consolidated	5,972,000	13.5	8,840,000	2,960,000	1.85
Utah Copper	13,160,000	13.5	19,500,000	6,340,000	3.96

*Estimated.

INTERNATIONAL CEMENT.—The 1919 figures will be at hand within a week or two and preliminary estimates indicate a consolidated income for the holding company's shares of slightly in excess of $1.00 per share. This included a very trying period in the Argentine, fighting a bad market condition,

which resulted in some substantial losses. This situation is now corrected and for the first quarter of 1920 earnings have increased month by month. Actual figures received indicate that the first quarter of 1920 the operating profits of the International Cement Company were at an annual rate of $3.00 per share, and in March, the last month of this quarter, they were at an annual rate of $5.00 per share. While, perhaps, it is hardly fair to take one month's earnings as a criterion of the year's business, these figures show clearly that after a period calling for a great deal of patience and perseverance, the corner has been turned and the earnings of this enterprise are on the up-grade. Three of the companies comprising this consolidation are now on a substantial earning basis, and the fourth is expected to be so very shortly.

THE FERTILIZER COMPANIES.—Attention has repeatedly been focused on the fact that 1920 was proving an excellent year for fertilizer companies. This statement is true so far as demand and selling prices are concerned. But 1920 from an operating standpoint has been so far a very difficult year for the country's largest fertilizer producers.

It may be recalled that the June 30, 1919, fiscal year of the fertilizer companies was also a twelvemonth of abnormal conditions. Much of this abnormality flowed from the readjustment in inventory values necessitated by the ending of the war at a time when the fertilizer manufacturers were carrying heavy stocks of raw materials assembled in anticipation of the 1919 spring selling season. These inventory adjustments were completed prior to June 30, 1919, so that the current fiscal year has had no serious problems of this nature.

On the other hand, the severe winter, railroad strikes, car shortage and a seven months' strike in the phosphate rock mines of Folorida have conspired to make it most difficult for fertilizer companies to get their goods manufactured and distributed. The fertilizer business is obviously by nature eminently a seasonable one. Unless fertilizers can be put in the hands of farmers by the end of May their salability for that season has been practically lost. The problem of distribution has never been so serious or difficult as this year.

Fortunately, in the South, which is especially dependent on fertilizers, the work of distribution has been somewhat less hampered than in the North. The railroads have done what they could, but the selling season is now so far advanced as to make it extremely probable that in actual tonnage of complete fertilizers delivered to farmers the 1920 total will fall 10 to 15% short of the tonnage figures for 1918 or 1919.

The aggravating thing is that there is an apparently insatiable demand for every ton of fertilizers that the plants can produce. Prices are entirely satisfactory and have held consistently at a level which covers increases in cost of production, including high-priced potash, which is now being used in larger quantities than at any time since 1915. The fertilizer manufacturers are securing reasonably adequate supplies of potash from Germany, Alsace and from American producers at prices averaging around $90 per ton, which is 100% above the 1914 level. Fertilizers containing fair percentages of potash have been available for that portion of the trade able or willing to pay the prices which these goods naturally command.

It is interesting to note as an indication of the difficulties being experienced in producing and distributing fertilizers in certain parts of the north that the proposal is being advanced that the farmers use them for top dressing. This procedure would be highly novel as the method almost universally followed up-to-date has been to bury the fertilizer in the ground and plant on top of it.

Happily this spring has been a late one even for Florida truck gardeners. With the season 20 to 30 days behind 1919, the fertilizer companies have gained precious time at just the period when it would benefit them most.

Despite some inevitable decrease in tonnage sales of fertilizers the year to June 30 should prove a satisfactory one to fertilizer companies. American Agricultural should record a very handsome rebound from the comparatively poor June 30, 1919, year results when earnings from the $31,655,200 stock amounted to 7.9%. It is very early yet to venture any predictions, but the company stands an excellent chance of earning the present 8% common dividend twice over.

International Agricultural Corporation is likely to show the largest balance for its $13,055,000 preferred in its history. Share profits exceeding 20% are not an unreasonable thing to expect. This company is getting the benefit of an active demand for its high-grade export phosphate rock and is still earning substantially from its sulphuric acid contract.

Virginia Carolina Chemical is so largely a cotton seed oil proposition that its fertilizer production accounts for but a portion of net profits. It is generally understood in banking circles that this company's fiscal year is proving so excellent that directors are likely to place the $27,984,400 common on a regular $6 basis, instead of 4% regular and 2% extra as has been the case for the last two years.

The fertilizer industry is in healthy condition. Its readjustment to peace conditions was completed in the first few months of 1919. Its 1920 difficulties have been due to the same unsettled conditions that have hampered other lines of manufacture. Broadly speaking these difficulties are simply a converse expression of an actual physical shortage of an essential element in food production.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

H H

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THE GENERAL MARKET.—Whether due to a change in the psychological atmosphere, owing to reports of cancellations and to reductions in price by large merchandise retailers, or to badly crippled transportation facilities or to both, it has now become quite evident that there is a distinct recession in many lines of business. While such an interruption to progress of business as has been occasioned by the outlaw railroad strike is most regrettable, it has also furnished a greatly needed object lesson, which could perhaps be supplied in no other way—that no body of men employed in such a vital industry can quit work without seriously affecting great numbers of other wage-earners. The men who, without cause, went on strike, are today very justly most unpopular with men who have thereby been wholly or partly thrown out of jobs. The loss of wages and, therefore, of purchasing power which this has caused are beyond computation. The fact is that the transportation system of this country is at the best so inadequate and has been still further so crippled by the action of these men that even were all other conditions favorable, this alone would make it impossible to continue business operations at anything like the volume necessary to show the best results. Nor is this a condition that, even if the roads generally could command the necessary capital, could be remedied in a week or a month. It would take years to supply the equipment necessary to put the railroads on a basis where they could adequately serve the business of the country.

The point has been well made that there has never been an instance of any serious financial depression when there has been such a general scarcity of goods, but the difficulty in securing goods, owing largely to transportation conditions, is apt to blind one to the fact that productive capacity is probably well up to, and perhaps in some lines exceeds consumption. The productive capacity of steel in this country today must be fully 50,000,000 tons. This is much greater than has been actually consumed in any one year. It seems doubtful if this great capacity could at the moment be profitably employed—certainly not at prices now ruling. The same is true of articles entering into clothing and manufacturers generally. Unfortunately, it is not true of food products. The movement of labor away from the farms has become alarming. This will in time be corrected by the lessening of pressure for labor in manufacturing industries, but this will take time and, meantime, food products are bound to remain high.

The one outstanding and controlling factor today—not only in this country but throughout the world—is the shortage of capital. This is due to three causes: the destruction of capital in the war; the tremendous expansion of industry as evidenced by the great outpouring of securities in the last few years and, finally, by the absorption in taxes of profits that would otherwise be available for enlarging business facilities. The fact is being brought home that there is a vast difference between currency and capital; that inflating currency does not increase the supply of loanable capital. It seems to us that this shortage of capital, which after all is but a synonym for accumulated wages or savings, is bound to result in continued high rates, which of itself is a restrictive and deflating influence. This process of deflation through which we are now passing is disagreeable, but vastly to be preferred to the experience which Japan, for instance, has recently undergone. It will in time bring about its own cure and, meanwhile, will present opportunities to those in position to take advantage of them.

THE EQUIPMENT SITUATION.—Authorities are very generally agreed that one of the most important contributory causes to the freight and transportation difficulties from which all sections of the United States are now suffering, is lack of adequate railroad equipment.

Probably never before in the country's history have so many people and so many different classes of people been so deeply disturbed over a transportation crisis as is the case today. Thousands of shippers who for 10 years have utilized all the influence they possessed to fight any suggested increase in railroad rates have discovered in the last two months that their production machine was breaking down. And being men of intelligence they have not required detailed arguments to prove to their own satisfaction that not only must the railroads be granted living rates but that they must have the machinery—namely, cars and engines—with which to do their work.

The ultimate consumer who has suffered in the recent outlaw strike has also learned a salutary lesson. His economic dependence upon the railroads has been driven home far more deeply than at any time during the war.

The outlaw strike happened to be the specific development which precipitated the present crisis. But it was only the pivot on which a much greater situation turned. Without an outlaw railroad strike conditions akin to those now existing would almost certainly have developed, although not so quickly. For

the nation's industrial machine has for some years and emphatically since 1914 been outgrowing its transportation machine. This truth has been preached from the housetops by railroad leaders, bankers and economists. But it is the history of humanity that it learns only through its misery. It has taken months and years to produce the present transportation breakdown.

It argues well for the future of American railroads that a sufficiently large number of the American people have been seriously enough inconvenienced to really care whether or not they have proper railroad transportation. That they do care and are more deeply aroused than at any previous time is becoming steadily more evident.

We would not be rash enough to claim that 100% of railroad ills could be possibly removed by so simple an expedient as providing additional equipment. The American railroad problem is admittedly one of the most complex with which the country has ever been confronted. Lack of adequate equipment is simply one phase of a highly intricate and involved situation. At the same time the figures which have recently been submitted to the Cummins Congressional committee in regard to pressing equipment needs are highly suggestive and confirms what railroad leaders have for some months contended. They show the early need of 100,000 freight cars and 3,000 engines. In dollars and cents this represents about $500,000,000, a sum probably greater than the railroads could raise by their own financing in 1920, particularly in view of the universality of the equipment need and the wide variation in railroad credit. It has been suggested that the Government itself will have to provide a large portion of these funds if this equipment is to be secured.

The dilemma has thus reduced itself to a question of finance. Railroads, shippers and public recognize the imperative need of equipment. The question of how the need is to be satisfied raises some very important questions of public policy.

Last fall the statement was frankly made that such companies as American Car & Foundry and American Locomotive were steadily reducing their unfilled orders and that with the turn of the year they would have practically exhausted their forward orders. This proved to be the case because equipment bookings from September, 1919, to January, 1920, were very light.

But since January there has been a very steady incoming volume of business. Both these companies have business on hand sufficient to justify operations at 75 or 80% of capacity. As a matter of fact, they are both running at under 50% of capacity. The cause is partly loss of labor during last Fall's slack period. This labor having drifted into other industries apparently cannot be quickly recalled. In addition both companies and, in fact, many companies are having difficulties in obtaining general materials entering into construction.

It is an extraordinary situation, a fair reflection of the abnormal era in which the world is attempting to do business. A few of the stronger railroad companies ordered fair amounts of equipment in the March quarter of this year. But even these orders are being held back by the causes just mentioned. If the big program of equipment building which has been suggested to the Cummins committee is authorized even in part, it would seem as if something in the nature of material rationing would have to be adopted.

ALLIS-CHALMERS.—A somewhat general impression seems to prevail that the earning results shown by Allis-Chalmers for the March quarter are indicative of a considerable recession in its trade position.

It may be recalled that net earnings for the three months to March 31, after deduction of taxes and contingencies, were $767,214, compared with $996,024 in the same quarter of 1919, a comparative decrease of $228,810, or almost 30%. It might naturally be assumed in the absence of specific facts that the March quarterly results forecasted a considerable reduction in 1920 net profits. A few words of explanation, therefore, are in order.

The $6,320,597 of sales billed out in the March quarter consisted largely of orders taken in the early part of 1919. Following the armistice Allis-Chalmers, like many kindred manufacturing concerns, experienced a decline in the demand for its products. The company's unfilled business was pretty steadily drawn down during the first six to seven months of last year. In order to keep its plants running at the largest manufacturing capacity possible, the company quite naturally took orders in the early months of 1919 at some concession in prices. It is this business which was billed out in the March quarter. The balance of these lower priced contracts will probably be all cleaned up before the end of the June quarter.

This point should be strongly emphasized because of the fact that for the last eight months Allis-Chalmers has been taking on new orders at full prices and particularly since the first of the year it has been following a selective method in the acceptance of new business.

For instance, in April the company put on its books $3,400,000 of new orders. Had it been disposed to accept all the business offered it could have booked $5,000,000 to $6,000,000 of new business.

At the close of 1919 the company had unfilled orders of $15,866,366. The present total is approximately $20,000,000, an increase of nearly $5,000,000 since the turn of the year.

Even in the improbable event that incoming business slows down in the later months of 1920, Allis-Chalmers, because of the long time required to manufacture and bill out the heavy apparatus which it produces, is morally certain to make an excellent showing of earnings in the second half of 1920.

There is another feature of Allis-Chalmers' operations which is very imperfectly appreciated. This relates to the heavy contingency reserves which the company is charging against earnings. For instance, in the fiscal year to December 31, 1919, the company set up a reserve for taxes and general contingencies of $2,368,000. Of this only $1,100,000 was needed for taxes. The balance, or $1,268,000, represents a

sum charged off as a matter of conservatism against possible changes in tax laws and unforeseen developments. In 1918 the contingency reserve was but about $250,000. In a company pursuing a less conservative policy than Allis-Chalmers, such a charge would probably have been made against surplus instead of against the current earnings of any single year. This contingency reserve of $1,268,000 is equal to an additional 5% on the $26,000,000 common stock, so that the actual profits of Allis-Chalmers in 1919 if figured in the way which many industrial companies adopt, would have been better than 14% instead of 9.4%, actually disclosed. This same policy of providing a reserve for contingencies was followed in the March quarter of this year when a reserve of over $200,000 was set up against less than $50,000 in the same period of 1919. Therefore, in getting the true prospectus of earnings for Allis-Chalmers preferred or common, credit for the heavy comparative increase in the contingency reserve should be taken into consideration.

ATCHISON, TOPEKA & SANTA FE.—The annual report of this company for the 1919 year makes a rather remarkable showing, the Atchison being one of the comparatively few railroads which made a profit for the Government during the two years of Federal control, and was able to earn its dividend requirements on its own operations in each of these years.

The Federal compensation amounted to $44,615,087, as compared with $42,885,310 in 1918. There was also a notable increase in other incomes from $4,310,951 in 1918 to $14,100,115 in 1919, which brought the balance available for dividends up to $43,098,657, or the equivalent of 16.5% on the common stock, as against only about 10% the year before. This item of other income is entirely abnormal, including as it does revenues and credits applying in part to previous years, but received during 1919. Had other income and charges been on the preceding year's basis, the balance for the $222,873,500 of common stock would have been about 10.7%.

Actual operating revenues, however, did not make quite as good an exhibit as in 1918—a result experienced by practically all of the railroads in this country. Net income which corresponds directly to the Government guarantee, amounted to $42,025,617, as compared with $44,206,338 the previous twelvemonth. Therefore, had the road been operated for its own account, it would presumably have been able to report earnings of approximately 15.4% for the junior stock issue. This is after allowing for the increased "other income." Even disregarding this as abnormal, actual earnings for the stock would figure out about 9.5%.

So far during 1920 the Atchison has made a consistently good showing of earnings. For the three months ended March 31, net operating income amounted to $14,297,135, as compared with only $5,694,163 in the corresponding period of 1919. This is not, however, quite such a sensational improvement as it would appear at first glance, for the January figures include $3,191,000 of back mail pay which accrued during the past two years. But even eliminating this item the first quarter would report a good increase over the preceding year. Ordinarily, the first three months produce on the average about 21.5% of the years' net income. And while any estimates for 1920 are not of much value now, so many new factors may enter later on, it is interesting to note that if this rate should hold the year, the actual earnings for the common stock might be estimated at around 13%.

Any company which has demonstrated such stability of earning power during probably the worst period the railroads have had to face in more than a generation should find every opportunity for the further expansion and development of traffic under the new railroad bill.

THE TIRE DEMAND.—Automobile authorities estimate that by the end of 1920 there will be approximately 8,250,000 passenger cars in service in the United States, a distribution of one car for about each 12 of population. Passenger car production this year will probably run between 2,200,000 and 2,400,000.

The tire industry is, of course, most intimately linked with the automobile industry, but there is this fundamental difference between the two. The automobile manufacturer is dependent on a market for new cars, but the tire manufacturer possesses his market in the cars already in use. If the manufacture of new cars were to be absolutely suspended for a full 12 months there would still be a demand for between 35,000,000 and 40,000,000 tires from the cars now in actual service.

Some carefully prepared statistics of the growth of the tire industry of the United States furnish striking testimony to the giant proportions attained by this business. Output of tires during the three years, 1917, 1918 and 1919, together with estimated production for 1920, are as follows:

Year	Number Tires
1920	41,000,000
1919	35,500,000
1918	25,000,000
1917	26,000,000

The normal growth of the business in 1918 was arbitrarily checked by war restrictions. The big jump in 1919 registered the removal of restraint. The 1920 expansion has been limited by factory capacity, labor conditions and difficulty in getting supplies, especially cotton fabric. The actual 1920 consumption

of tires will probably run close to 44,000,000, the 3,000,000 excess over production coming in part from surplus stocks which by the end of this year will be heavily depleted. A portion of the 3,000,000 difference between production and consumption will also be made up by retreading, an operation which has created a considerable by-product business.

Curiously enough there are sound economic reasons for retreading whenever possible, entirely apart from the heavy original cost of a new tire. In 1914, for example, crude rubber was about $1.50 per pound, while cotton fabric was but 50 cents per pound. The tread is a rubber proposition and the cost of fabric does not enter into retreading operations. But today crude rubber is but 50 cents per pound, a third of the 1914 price level, while cotton fabric is about $2.50 or five times the 1914 cost. So far as raw material is concerned, it is two-thirds cheaper to retread now than in 1914.

It is, of course, fairly obvious that in the tire boom of 1919 and 1920 a good many small and financially weak tire companies have come into being. If the automobile industry contracts sharply in 1920, as many skeptics profess to believe it will, the onus of contraction will naturally fall most heavily on the small and weak producers, whose corporate life has been too brief to permit the accumulation of uncapitalized strength.

And even among the larger tire companies the effect of a sharp decline in automobile output will produce varying effects. The large companies which have years of financial reserve have made great strides in the direction of selling direct to the consumer. They distribute their product only in a small proportion to the automobile manufacturer to equip new cars and in the largest possible proportion to the owners of cars already in service. Stability of demand and a somewhat wider margin of profit dictate this policy. There is no hard and fast rule as to the percentage of division between these two classes of sales which constitute a healthy production basis. In a general way, however, when a tire company can sell 75% of its output to the ultimate or individual consumer, it has attained a very satisfactory trade position.

In this era of high prices it is rather interesting that tires have been subject to such moderate advances in price. There have been advances, but the statement is broadly true that tires cost no more today than they did seven years ago. The big decline in crude rubber has been more than offset by increased cost of tire fabric. Tire success is largely today a question of well bought cotton fabric. The tire industry is consuming in 1920 over 450,000 bales of cotton and the demand for cotton is growing at the rate of 50,000 bales per annum.

The tire industry is a big business, representing in 1920 estimated gross of nearly $1,200,000,000.

RAY CONSOLIDATED COPPER COMPANY.—The costs with respect to producing copper began to mount the latter part of 1916 and in spite of the enormous increase in costs per ton of ore mined and milled for 1919, as against 1916, the following comparative table compiled from the 1919 and 1916 Annual Reports of the Ray Consolidated as bearing upon the cost per pound of copper produced, is most interesting:

	Tons Ore Mined and Percent Copper	Net Mining Cost Per Ton Ore	Dry Tons Ore Milled and Percent Copper	Milling Cost Per Ton Ore	Average Percentage Recovery	Lbs. Copper Recovered Per Ton Ore	Cost per Lb. Copper Produced
1919...	1,648,174—1.83%	$1.63	1,621,600—1.814%	$1.29	79.45%	28.83 lbs.	14.94c.
1916...	3,363,466—1.63	.749	3,332,340—1.607	.553	70.20	22.56 lbs.	10.267c.

In order to meet the slackened demand for copper metal nearly all of the porphyry mines operated at about 50% of normal capacity during 1919. The smaller number of tons of ore mined and milled naturally tends to increase costs per ton of ore mined and milled and costs per pound of copper produced, but the principal reason for the increased cost is due to higher cost for labor and supplies. It will be seen from the above table the cost per ton of ore mined and milled for 1919 was more than double the cost per ton of ore mined and milled during 1916, and yet the cost per pound of copper produced was only about 45% greater in 1919.

This result is partially brought about by the slightly higher grade of ore milled, although the principal reason for the lower cost per pound of copper produced, as compared with the higher cost per ton of ore mined and milled is the gradual improvement in percentage of recovery, or pounds of copper recovered per ton of ore:

79.45%, or 28.83 lbs. in 1919
70.20%, or 22.56 lbs. in 1916

This improved metallurgy is very significant. It has a big bearing in constantly lowering the cost per pound of copper produced and naturally strengthens the stockholder's confidence in the shares of these porphyry copper companies.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—Until this week the market had persistently ignored the blighting effect on American industry of the railroad snarl. We consider this rather a mistake because it had become too serious a factor to ignore with impunity. It is making very serious invasion upon the industrial life of the whole northeastern United States. We have become so used, during the last five years, to enormous corporation earnings that it is difficult to realize they can be otherwise. When the figures for the second quarter of this year come to be published, we fear they are going to prove something of a shock and it is not going to be an easy matter to restore these earnings to former proportions. Even more serious, however, than the temporary loss of earning power, is the fact that these transportation difficulties have greatly accentuated what was already a tense credit situation. The overshadowing factor today is capital, or rather the lack of it. In any event some further restrictive measures would probably have been necessary, but by freezing up liquid capital through inability to deliver and get materials, the railroad breakdown has finally brought things to a point where immediate measures are necessary, and it is this situation more than any other that the market now reflects.

For some time past we have dwelt on the dangers of the situation rather than on what favorable factors might exist because we believed the former loomed larger and were likely to be of greater immediate influence. There have been, however, favorable factors present and we believe that the liquidation in the market has reached a point where one will do well to begin to pay more attention to them.

First of these, we think, is the fact that liquidation has undoubtedly greatly improved the technical market position. Writers have for some time been insisting that the financial community was in good shape. This, we believe, was only in part true and to make it at all a fair statement it should also be added that even today so much are loans frowned upon that in spite of comparatively easy money rates the average banking house is exceedingly reluctant to increase its obligations. Right here attention should be drawn to one point of the speech of the Federal Reserve Bank Governor, which seems to have escaped general notice, viz.: that with liberation of credit now frozen up by reason of transportation difficulties, the situation will be greatly improved.

The continued restrictions which this speech forecasts and which have seemed to cause so much apprehension are aimed at commodities rather than securities. With a freer movement and some further liquidation of the former, the pressure on the latter will be relieved. It has been this commodity liquidation that the market for some time has been forecasting. When it shall have been accomplished and when prices of goods have been somewhat reduced, this particular cycle will have been completed and the stock market on its way to recovery.

Secondly, is the fact illustrated by the sale of over $150,000,000 of railroad securities in the last six weeks, which have been genuinely absorbed by investors, that funds for this purpose are plentiful.

Third, is the fact that railroads will undoubtedly soon be in the market with large orders for equipment. A revolving fund of fair proportions has been already provided and this may be increased. The object lesson has been too vivid to leave any grounds for objection to reasonable treatment for the railroads.

European conditions are so confused that equally shrewd men return with widely varying views. That there is great need for American goods, however, there is no reason to doubt. There seems to be some danger, however, that England—with her greater experience in international finance, and her control of shipping—may be able again to resume her position of supremacy at our expense.

These are very briefly some of the more constructive factors that should not be forgotten at a time like the present. Difficulties and dangers still exist, but are being rapidly discounted and the very fact that they are recognized robs them of their worst terrors.

As to the stock market, we do not believe that the time has yet come when any general rule may be laid down. Frankly, we feel that quite a number of stocks are still on an inflated basis and that the situation will be sounder if these are further deflated. On the other hand, there are a number of securities to which we are beginning to feel strongly attracted.

First and foremost are the Liberty and Victory bonds. The phrase "chance of a lifetime" is a hackneyed one, but this is literally the case in respect to these bonds. Then there are other securities representing commodities in physical shortage which, by the inexorable law of supply and demand, are bound to command high prices. A third class are the coppers. Here are stocks that represent in many cases great deposits of essential raw material, that even on a pre-war basis of demonstrated earning power are cheap, and that represent companies producing what is relatively the lowest priced commodity. There are

several others that, for special reasons, seem attractive. In short, such an economic readjustment as we are now passing through must have a widely varying effect on different industries and it behooves one to use care that his securities represent those in the strongest position.

INTERNATIONAL MOTOR TRUCK.—One of the factors helping to partially relieve the present railroad freight congestion is the wide use of the motor truck. It is literally true that in the east many industrial concerns have avoided suspension of production only through emergency use of motor trucks. The war emphasized the tremendous mobility of the truck. It also demonstrated that the truck was capable of handling volume business in short time when mobilized in sufficient number of units.

Industrial concerns had gradually been extending the field for distribution of their finished products by truck during the war period. But railroad conditions in the last few months have shown that it is feasible in an emergency to get raw material into a plant when a railroad crisis prevents free movement through terminal congestion.

For the truck is admirably adapted to relieve a terminal and freight yard congestion such as exists over much of the country today. Most of the trouble on the railroads has been the piling up of freight in terminals and at strategic gateways. The truck can be utilized for emergency work by reaching out into territory beyond terminals and collecting freight from the railroads before it gets into the congested area.

Probably never in the commercial history of the United States have a greater variety of expedients been adopted than during the last six months to insure continuity of production. The use of trucks for emergency work has given thousands of manufacturers appreciation of their value for regular, normal short haul distribution work.

International Motor Truck has naturally been benefited by the popular adoption of the motor truck as an auxiliary in commercial transportation. The company could sell its possible 1920 production several times over.

The March quarter showed an output at the rate of 7,500 trucks per annum. April production ran at a 10,000 per annum rate and May promises to do as well. The ability of the company to actually increase its volume of production in the face of the operating problems confronting industrial manufacturers in recent months is strong testimony to the efficiency of the International Motor Management. There has been considerable general talk of priority shipments on the railroads. If any such ruling proves necessary it is a fair assumption that the great need of truck service as an auxiliary to the railroad will serve to protect truck manufacturers in securing their necessary materials.

THE QUESTION OF SUGAR.—At a time when so many signs seem to forecast a decline in commodity prices the statistical position of sugar is such that it has become evident that if sugar sells at lower figures in the near future it will be due to other causes than an early increase in production. The steady downward revision in estimates of this year's Cuban crop have now reached a point where a yield of 3,500,000 to 3,600,000 tons seems to be the best that can be expected. This is a full 1,000,000 tons less than the more optimistic figures presented last fall just in advance of the opening of the grinding season. And 3,500,000 tons would be 500,000 tons under the 1919 crop. It is a story of drought and represents one of those sudden and unexpected failures of nature at a time when the need is the greatest.

It is interesting to note that the upward advance in Cuban raws culminated for a series of weeks at 18½ cents a pound. The refiners took the lead and in an effective way let it be known that this was the limit at which they would voluntarily purchase Cuban raws. In a small way, therefore, the refiners actually exercised a certain regulatory function which for the two previous years had been exercised in a much broader way by the Sugar Equalization Board. In the last few days the price of Cuban raws has, however, jumped to a new high figure of 22 cents a pound. This advance has coincided with the further assurance of a big shortage in the Cuban crop, together with a heavy export movement from Cuba to Europe. It is worth noting, however, that these record prices for raw sugars have been named on a comparatively small volume of transactions, the bulk of the crop having already been sold.

The balance of 1920 is almost certain to witness a greater shortage of sugar in the United States and a greater inequality in distribution than at any time since 1914. One of the unfortunate developments is the inequality of distribution. Two main factors account for this. One is the large amount of sugar being refined on "toll" which means in substance that the sugar consumer has purchased raws in Cuba and has had them delivered to a refiner to be refined for his account. Many large manufacturers using heavy tonnages of sugar lost no time early in 1920 in adopting this procedure. They had suffered such restrictions in 1918 and 1919 that once a free market was established they determined to make sure of their sugar supply. It is understood that several refiners have taken so much of this class of business that much of their capacity until September will be absorbed by this "toll" production. The margin of profit on this business is liberal as customers have in some cases at least paid 4 to 5 cents per pound for "toll refining."

Another factor which has accentuated the inequality of distribution has been the freight situation on the railroads. The sugar refineries quite naturally are at seaboard. To get refined sugars to markets as far west as Chicago and St. Louis they must depend on the railroads. Sugar has been congested for six weeks and even for nearer points in New York and New England the problem of delivery has been most serious. In some cases long distance trucking has afforded slight relief.

It is worthy of note that the two largest refiners in the United States, American Sugar and National

Sugar have both refused to handle any toll business and both have likewise refused to accept export orders for refined. These two companies could have had orders for several hundred thousand tons of refined sugar for export had they been willing to accept them. Their ground for refusal was that they had a public service to perform in supplying the American market and that instead of encouraging they should discourage the export of sugars sorely needed here.

At this late day the Washington authorities are making an attempt to exercise some supervision of the sugar situation. There is little they can do effectively save to control the refiners. The price of raws being an international question is out of control. The refiners may be asked to accept $3\frac{1}{4}$ to $3\frac{1}{2}$ cents as fair refining margin. In that event and assuming ability to hold raws at $18\frac{1}{2}$ cents a future price for refined of around 23 cents wholesale would seem to be indicated. Allowing 4 cents for jobbers' and grocers' distribution expenses would apparently mean a consumers price of 26 to 27 cents. Against this refiners are now asking $20\frac{1}{2}$ cents, but refiners have been employing lower cost Cuban raws. The 18 and 19 cent Cuban raws have not yet come through the refinery.

It would be a wise move for refiners to accept Government fixation of a refining margin. The refiners have yet to make their high prices, but they must be named and when they are the public will probably accept these prices with less fuss if fixed in accordance with a Government established refining margin.

There is another phase of the sugar question which is likewise highly interesting. We refer to the large prospective profits which the various American beet companies should make this fall. Their crop starts in August or September. Little or none of it has been sold ahead and it should this year be distributed at prices having a close parity to the price of refined. Beet sugar companies are raw sugar producers turning out a refined and they have an unique opportunity to get the full advantage of high prices for refined.

The big profit in store this fall for beet companies and for farmers growing sugar beets ought to mean a large jump in the American beet crop in 1921. The output of beet sugar in the United States has been practically stationary for four years, due largely to the fact that it paid farmers better to raise other crops. The incentive for a big 1921 crop will be very keen unless the Government discovers some way to fix the price at which the beet sugar companies can sell.

We referred at the outset to the growing sugar shortage of the world. In 1915–16 this shortage was about 2,200,000 tons. This year it is likely to be nearer 5,000,000 tons, a total so great that it would seem only a lapse of years or some curtailment in consumption could restore the balance between supply and demand.

ATLANTIC GULF & WEST INDIES.—The successful loading by Atlantic Gulf of its first tanker at the Tecomate terminal means in substance that the company's big oil program has begun to function in a productive way nearly four months earlier than seemed probable at the beginning of 1920.

The new pumping station is now in service and this gives the Atlantic Gulf oil subsidiary a pipe line capacity of 40,000 barrels per day. Practically this represents the ability to load weekly three tankers of 75,000 barrels capacity each. Gulf has, of course, a considerable tank storage capacity at its Mexican terminal. At present this amounts to about 100,000 barrels and will probably be increased as opportunity offers to double this figure. At the same time the pipe line capacity is so large and will be so increased by the doubling of the present 10-inch pipe line that a regular schedule of tankers must be maintained if the 80,000 barrel per day capacity which is assured with the completion of the new pipe line is to be fully utilized. In other words, Atlantic Gulf has reached a point in its oil development where the scope of its oil business will be limited by tanker service.

The new pipe line on which work is now under way should be laid and ready for service some time in July. The bulk of the pipe is already on the ground and as the right of way was cleared at the time the original line was laid the work of putting in this duplicate line presents no special difficulties.

Some time in July, according to present prospects, Atlantic Gulf should receive its first two tankers. These are part of the fleet of 14 oil bearing steamers for which contracts have been let. Another 4 tankers were due to come in by September 1. These 6 tankers aggregate 71,000 tons and represent a carrying capacity of about 450,000 barrels of oil. Probably owning to construction delays the September 1 tanker will not be ready by that date, but they should be in service during October.

Atlantic Gulf has a developed oil production in Mexico of 350,000 barrels per day flowing from four great wells. This is a capacity measure. Obviously as a practical matter no company can afford to draw on more than a fraction of the maximum capacity of its wells. If 20 or 25% of the maximum capacity of a well is utilized it is as liberal a drain on that well's pressure as it is safe to utilize. If Atlantic Gulf were to use but 20% of its well capacity it could reasonably count on 70,000 barrels per day.

The final income figures for the fiscal year to December 31, 1919, have not yet been completed. The annual statement should, however, be in shape to send to shareholders some time in June. There is every reason to expect that the actual figures will equal or slightly exceed the preliminary estimate of $28 per share for the common after deduction of depreciation, taxes, interest and preferred dividends.

In the first quarter of 1920 the steamship business operated under abnormal handicaps. Bad weather was a serious adverse influence. The port strike in New York, the Havana strike and then the "outlaw" railroad strike all combined to make a normal flow of traffic impossible. At the same time the steamship earnings were sufficiently large to warrant the assertion that in the March quarter the company earned at the rate of the present $10 dividend on the common with some surplus to the good. It ought to do a great deal better than this in the June quarter.

Atlantic Gulf is not increasing its fleet in 1920. New tonnage is prohibitive in cost. The four ships taken back from the Government last year—all large sized boats—are now in foreign service and are showing excellent earning results.

The coastwise business has not yielded a satisfactory return at any time for several years. There is no reason to expect this condition to change. Gulf has 13 smaller steamers of about 30,000 tons aggregate capacity which it will sell as opportunity is presented.

MATHIESON ALKALI WORKS.—After rather an indifferent showing in 1919, due to a variety of causes, the earnings of the Mathieson Alkali Works have begun to show a decided recovery. In the first quarter of 1920, the company reports earnings after all charges, including taxes and dividends on the preferred, of $201,261. This is equal to $1.71 a share on the common stock, or at the rate of $6.84 per annum. The operating profits during the quarter were at a rate approximately 30% larger than in 1919, and about equal to 1918. As a matter of fact, during a portion of this period, the earnings were at a considerably larger rate than this, and would have totalled more for the quarter but for an accident to its Niagara Falls plant which cut down the earnings in March. This will also have some effect on the early part of the second quarter, but the damage has now been fully repaired and henceforth earnings should exceed any that have been recorded for a long time past.

One of the most pleasing features of recent operations have been the results at the Saltville plant. For some time past this has been quite a drag on the company. In the March quarter this was a material contributor to net earnings, and from now on should be a consistent money-maker.

CHICAGO, MILWAUKEE & ST. PAUL.—For several years previous to the taking over of the railroads by the Government, the St. Paul had made a very indifferent showing as to earnings—a fact which was generally attributed to the expense incurred in the construction of its, as yet unproductive, Pacific Coast extension. During the two years of Federal operation few big roads reported more disappointing operating results than the St. Paul.

The annual Federal compensation for use of the property, based on the average net income for the three years ended June 30, 1917, amounted to about $28,000,000. After allowing for other income and charges, but not including lap-over items from previous years' operations, the final balance was equivalent to 2.19% on the common stock in 1918 and 2.65% in 1919.

In 1918, however, the actual net operating income corresponding to the Government rental amounted to only $3,884,422, and in 1919 to only $3,134,850. Consequently, the Railroad Administration incurred a loss for the two years of nearly $49,000,000. Or, looking from another angle, had the St. Paul been dependent on its own resources in that period, it would have had a deficit after fixed charges of approximately $27,000,000. Such a record as this would not seem to hold out much hope for the company under private operation.

It is, nevertheless, interesting to note the improvement in earnings recorded so far this year. For the three months to March 31, 1920, gross amounted to $39,242,808, as compared with $32,182,224 for the same period in 1919, and the net deficit amounted to $790,773, as against $1,036,521 a year ago. In each of the three months in 1920 there was a deficit, but this year both January and March reported a sizable surplus, and the big February deficit was probably largely due to unsatisfactory weather conditions. The March figures with a net income of $1,734,879, as compared with a loss of $291,936 in March, 1919, would offer some encouragement that under private operation the management may be able considerably to improve upon the extremely poor showing of 1918 and 1919.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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No. 863 June 25, 1920

THE GENERAL MARKET.—The action of the market demonstrates that much has been discounted. In the face of a business situation which, to say the least, does not improve, there is no liquidation whatever. Evidently, the decline since the high prices of last March had anticipated just such an industrial condition as now confronts us. The seriousness of the labor situation, however, is not to be ignored. The railroads have never fully recovered from the outlaw strike of the spring, and if this again materializes, as it threatens at the moment to do, it will again seriously cripple production, just when this seemed on the point of becoming more nearly normal. It must be said that the protracted delay in settling the wage question must be exceedingly irksome.

While business, either because of lessened demand or labor trouble, is unquestionably slowing down, there are one or two underlying factors that show a distinct improvement. One of these, according to reliable reports, is the crops. A distinct gain in the condition of wheat is expected over the June figures, while even cotton is believed to have improved. Another factor is the rise in foreign exchanges. While demand in this country may have receded, there is a tremendous potential demand abroad that would quickly materialize whenever the financial balance permitted. It must be said, however, that this point can hardly be expected to be reached for many months to come—scarcely in time to take up the slack here.

The maintenance of our foreign trade balance is truly surprising. It illustrates, to a high degree, the old adage, "where there is a will, there is a way." If exports can be maintained at such a level, in spite of the tremendous handicap of dislocated foreign exchanges, one wonders what would happen if these were at all normal.

Money, after all, remains the controlling factor. The Reserve Bank statement showed, it is true, a more decided improvement in the last week than for a long time past, but was largely counterbalanced by a very unfavorable New York bank statement.

We still feel that the industrial situation must be more thoroughly liquidated and adjusted to new price levels before conditions are ripe for any broad upswing.

STANDARD OIL OF NEW JERSEY.—To those who find a fascination in big figures there is much that is statistically impressive in the record of Standard Oil of New Jersey as revealed in its 1919 annual statement and in the more detailed exhibit of the listing notice on the New York Stock Exchange.

It was something akin to an industrial revolution for Standard Oil of New Jersey to invite public parcipation in its business through the creation in August last year of $98,338,300 7% preferred and the listing of this preferred and an equal amount of common on the New York Stock Exchange was the logical fulfilment of the new policy of publicity and public absorption of its securities.

For some months after the creation of this approximately $100,000,000 preferred stock issue, it sold at a substantial premium. At one time the stock touched 119 and for months held from between 112 and 114. In market appreciation Standard Oil of New Jeresey preferred was immediately rated as the peer of United States Steel preferred, although the latter security had nearly 20 years of market seasoning to fortify its market level. Investors were quick to appreciate the fact that although Standard Oil of New Jersey preferred was a new issue it represented 50 years of highly successful business management.

Undoubtedly, one motive which led to the creation of this preferred stock was a desire to increase invested capital employed in computing taxes. Standard Oil had experienced a shocking increase in tax burdens. From $1,634,683 reserved for taxes in 1916, the total had jumped to $25,019,916 in 1917, and in 1918 reached the huge bulk of $44,330,359. No business could stand so heavy a burden as this with composure.

Any corporation handling as Standard Oil does in itself and through its subsidiary organization a gross business of $700,000,000 to $750,000,000 per annum not only requires a large working capital, but it needs a continuous cash balance of $50,000,000 to $60,000,000.

The 1919 issuance of preferred and some relaxation in the severity of taxation caused a sharp drop in the 1919 estimated requirements for income and excess profits taxes. The sum of $14,000,000 was charged against 1919 earnings for this purpose, a decrease of $30,330,000, compared with 1918. It is not impossible that the gain in invested capital obtained from the new preferred stock has saved enough in taxes to offset the entire $7,000,000 required for dividends.

In issuing the second block of $98,338,300 preferred in April of this year Standard Oil found a most unfavorable money market situation. The inevitable result was a sharp decline in the market price of the shares to a low of 100¾, off over 18 points from the high and 5 to 6 points below the market level of Atlantic Refining preferred, another 7% issue of almost equal investment merit.

The reasons for the creation of the first issue of preferred were pretty clearly understood last August when it was offered and entirely taken up by common shareholders.

There has been some uncertainty as to why a second issue in size equal to the first needed to be created. The answer lies in the enormous business which the company is doing and expects to do indefinitely. Its current capital expenditure program will involve $70,000,000 to $75,000,000 and the weight of this outlay plus the doubling and trebling of inventories since 1915 has made it prudent to go very strong in working capital.

On December 31 last, the close of its fiscal year, Standard Oil of New Jersey had current assets according to the consolidated balance sheet of $515,204,183 and current liabilities of $157,005,382, leaving a net working capital of $358,198,801. This balance was equal to $364 per share on the $98,338,000 preferred then outstanding. The proceeds of the second lot of preferred, even assuming half of it goes into property in 1920, an improbably rapid rate of expenditure, would swell the balance of net quick to over $400,000,000, or better than $200 per share of preferred in working capital alone.

Standard Oil of New Jersey is the nation's largest refiner. It directly operates refineries having a daily capacity of 107,000 barrels of various petroleum products. Through its subsidiaries, notably Imperial Oil, of which it owns about 77%, and Standard Oil of Louisiana, of which it owns 99.9%, it has an equity of 66,000 barrels additional daily capacity. Smaller equities bring its total refining capacity up to about 175,000 barrels per day and within a reasonable length of time it is most likely to be 200,000 barrels per day. These figures make no allowance for topping and casing head plants.

In studying the 1919 income account of Standard Oil, which showed a balance of 72.3% for the $98,338,300 common after allowing a full year's 7% preferred dividend, against 58.2% in 1918 and 82.0% in 1917, it is interesting to note the decline in refinery profits and the expansion in steamship earnings. In 1919, on $437,105,000 gross from its own operations, an increase of nearly $25,000,000, compared with 1918, net profits after depreciation were $29,949,183, an actual decrease of $15,176,385, compared with 1918. It is hard to understand the reason for such a fluctuation as this.

But net income from steamships, interest and sundries was $15,607,028 in 1919, against $5,661,345 in 1918, a gain of nearly $10,000,000.

Standard Oil of New Jersey owns about 325,000 tons of tankers and steamships which it carries at the conservative figure of $115 per ton. Clearly the control of these tankers and ships by the Government during the war was a hardship. And in 1919, with free use of its tonnage it was able to make a much better showing.

Another interesting feature of 1919 results was the fact that net income of the subsidiaries, i. e., the parent company's proportion, was $43,510,736, against $37,674,285 in 1918. The three largest subsidiary earners are Standard Oil of Louisiana, West India Oil and Imperial Oil. As producers they had apparently relatively better net results than the parent company which is chiefly a refiner and distributer.

It is also interesting to know that in the five years to December 31, 1919, Standard Oil earned nearly $350 per share on its common. This is a yearly average of $70, or in terms of the $196,000,000 preferred, $35 per share, or five times the dividend. And this calculation is clearly most severe in that it makes no allowance for the net profits which this nearly $200,000,000 of new money should create.

AMERICAN CAR & FOUNDRY COMPANY.—With the exception of the fiscal years to April 30, 1918 and 1919, the earning record of American Car & Foundry Company in the 12 months to April 30 last was the best in the company's history. The balance for the $30,000,000 common stock, after deductions of depreciation, taxes and preferred dividends of $8,301,191, was $1,370,622, or 14% less than in the 1919 year.

The 1920 year is especially satisfactory in that it shows such marked stability of earning power at a time when other equipment companies were experiencing a period of transition. The earnings of the locomotive companies, for instance, in the final six months of 1919 and during the first quarter of 1920, have been relatively mediocre, due to the exhaustion of their forward orders and the hesitation of domestic roads in ordering new equipment. But American Car & Foundry carried over from April 30, 1919, approximately $100,000,000 of forward orders. At that time the statement was made that this volume of business was ample to insure a satisfactory income return during its 1920 fiscal year. This has proved to be the case.

In the late fiscal year the company's total net earnings of $14,382,565 was $2,890,607, or 16% less than in the previous year. The depreciation setup was reduced slightly over $1,500,000, with the result that the balance for dividends of $10,401,191 was sufficient to cover the 7% on the $30,000,000 preferred with a surplus of 27.67% for the $30,000,000 common, compared with 32.23% in the 1919 year, and 30.60% in the 1918 year.

It is furthermore interesting to note that in the fiscal year just ended the provision for Federal income and profit taxes amounted to $7,950,000. This sum added to the $8,301,191 final balance for the common shows that the actual earnings for the common stock before deduction of war taxes were $54 a share. This provision of approximately $8,000,000 for taxes compares with the enormous setup of $24,475,000 in the 1919 year, when the earnings for the common stock before deduction of taxes amounted to $113.80 a share.

In its past four fiscal years, American Car & Foundry has earned a balance for the common after all

prior deductions of $117.50 a share. Of this $34.50 a share has been paid in dividends, leaving $83.30 a share, or $24,900,000, which has been retained in the business. Of this $24,900,000, $19,100,000 has been added to working capital, while $5,800,000 has apparently gone into fixed assets, including additional plant and equipment. The following table, shows concisely the earning record of the company during the past five fiscal years:

Income Results

	1920	1919	1918	1917	1916
Total net	$14,382,565	$17,273,172	$16,461,823	$17,522,909	$4,595,359
Depreciation	3,981,373	5,501,358	5,180,080	7,212,037	1,779,341
Balance	10,401,191	11,771,813	11,281,742	10,310,872	2,816,018
Preferred dividends	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
Surplus for common	8,301,191	9,671,813	9,181,742	8,210,872	716,018
Equals per share	27.67	32.23	30.60	27.3	3.4

At the end of April last, American Car & Foundry had in excess of current assets over current liabilities, $39,698,018, an increase of $2,583,740, or 6.8% during the fiscal year.

In the last four fiscal years the company has made remarkable strides in building up its reservoir of net quick assets. The gain in this period has amounted to $19,100,209, or 92.7%. In short, American Car & Foundry on April 30 last had a balance of quick assets sufficient to have retired the entire $30,000,000 of preferred at par and still leave a surplus of $9,698,000, or $32 a share for the common stock. This is, of course, in addition to its asset value as represented by plant and other fixed property values. Not until 1918 did American Car & Foundry have net quick assets equal to the par of its preferred stock and in 1916, only four years ago, the working capital balance was equal to but about $65 a share for the preferred. The development of working capital over the past five years is pictured in the following:

Working Capital

	1920	1919	1918	1917	1916
Current assets	$71,031,980	$110,266,604	$60,441,298	$43,910,123	$35,070,238
Current liabilities	31,333,962	73,152,326	27,766,819	17,350,941	14,472,429
Working capital	39,698,018	37,114,278	32,674,479	26,559,182	20,597,809

It is only a company with the resources and management of American Car & Foundry that could have completed its period of readjustment following the close of the war with the rapidity and with as little disturbance to earning power. The company for some weeks has been severely handicapped in its operations by the freight conditions and by delays in delivery of essential materials and parts. So serious at times has been the shortage of essential supplies that the company has been obliged to curtail heavily in its manufacturing output. But this, it is believed, is a temporary disturbance. The potential demand for equipment both in the United States and from foreign users is fully as great as it was a year ago.

The question of successful financing of foreign orders is still a problem which has not been solved. It has, however, not prevented American Car & Foundry from booking some satisfactory orders during the past 12 months.

One of the notable achievements of the late fiscal year was the acquisition of a considerable interest in the Canadian Car & Foundry Company, Ltd., a successful Canadian producer with five plants all in excellent physical condition. This company has on its books at present more than a year of forward orders.

It may be noted that on April 30 last American Car & Foundry had a reserve for dividends on the common stock of $10,800,000, a sum equal to three years' dividends at the current 12% rate and an increase in the dividend reserve as compared with April 20, 1919, of $3,600,000.

GENERAL ELECTRIC.—The 1920 experience of General Electric is adding fresh weight to the claims of those who have steadily maintained that it was a fundamental business. The volume of incoming orders since January has been the largest in the company's history and has run at the rate of $400,000,000 per annum. This means that for the first half of 1920 new business has been flowing to the corporation at a rate 66% in advance of the 1919 bookings of $237,623,000. Actually, General Electric has been flooded with a rush of orders which is 30 to 35% in excess of its maximum productive capacity.

Months ago it became apparent to General Electric officials that the release of its productive energies for satisfaction of the needs of domestic buyers as contrasted with the absorption of much of its capacity by the Government during 1917 and 1918 meant a demand that would require a heavy addition to physical equipment. General Electric in the two years 1917 and 1918 expended for plant additions and equipment a total of $43,914,892, of which only slightly less than $30,000,000 represented the investment of sums charged against earnings for depreciation. In the slump in business which followed the armistice, General Electric naturally slowed down its property expenditures, which in 1919 dropped to $14,462,286, a figure, however, which had never been exceeded up to 1917.

The sharp jump in incoming business which asserted itself last fall and which has since been sharply

accelerated, has again thrown the emphasis on the need of additional productive capacity. The 1920 outlay for plant and equipment will likely reach $20,000,000 and according to precedent 60 to 70% of this outlay will be contributed by depreciation and allowance for replacements.

General Electric has found it advantageous to buy certain industrial plants rather than attempt the tedious process of new construction. The Remington Arms plant at Bridgeport, which in March was leased with option to purchase, contains over 30 acres of manufacturing floor space. It has cost several million to get this plant whipped into productive shape, but it was quicker and cheaper to do this than to start from the ground and build up.

General Electric has since the Remington Arms purchase acquired several other smaller manufacturing plants, including one in Baltimore, its first factory in southern territory.

It is interesting to note that at this time when its sales are the greatest ever known, the company is in better financial position than it has been since 1916. The floating debt situation was cleaned up in December, when $10,000,000 maturing notes were paid.

The steady persistence of new business at new high figures convinced directors by April that there was nothing fictitious about the demand for its products and $12,055,000 par of new stock was offered in that month at 125, giving the company about $15,400,000 of cash and increasing net quick assets to a total of about $140,000,000 It seems probable that by December 31 the company's balance of working capital will total between $140,000,000 and $150,000,000. On the basis of billings this calendar year of $275,000,000, which is about as much as can be expected, these net quick assets would represent a ratio of working capital to sales of 51%, which is none too high.

General Electric has, however, anticipated the July 1 maturity of its $15,000,000 3-year 6% notes, so that its 1920 maturities are fully financed.

The company has had its share of difficulty in getting steel and other raw materials, but it is only fair to say that it has not had troubles or delays so serious as those which have afflicted the equipment companies. The company makes a great many castings of its own which do not require steel. Furthermore, it is a more regular steel consumer than the volatile equipment companies, so that the steel producers have had an incentive to take care of its needs. The low selling price of copper since 1918 has been a great help to General Electric and has doubtless been a contributory factor in stimulating new business.

The 1920 experience of General Electric has shown the great proportions of the dammed up demand, which accumulated in 1917, 1918 and the first half of 1919. Furthermore, a class of customers formerly depended on for regular business is now practically out of the market. This is the street railways whose credit has sunk to so low an estate as to make the question of finance an unusually difficult one. If the street railway situation ever rights itself to a point permitting free financing the electrical buying of this class of customers is bound to be very great.

Perhaps the most significant feature of the General Electric Co. today is the continued strong demand for its wide variety of products. It is certainly a stranger to the meaning of the expression "cancellation of orders."

PUNTA ALEGRE SUGAR.—Excessive rainfall has finally made it advisable to discontinue grinding at Punta San Juan, the last of the three Punta Alegre mills to continue operations. This plantation has produced approximately 285,000 bags as against 226,000 in 1919. This gives the company an aggregate production of about 630,000 bags. While less than was hoped for at the beginning of the crop season, this still makes Punta Alegre one of the comparatively few companies to produce more than it did last year —the 1919 output having been 605,000 bags. As against a gain of 4% for Punta Alegre, the island as a whole will show a falling off of about 12%.

Although it is too early to attempt to give any definite figures as to earnings, it may safely be said that, in spite of the fact that production was not up to the original estimate, the higher average price received makes it certain that the final earnings will run well over the $20 per share that was estimated at the first of the year.

The company, it is true, earned $20 per share in 1918–19, but this was on 77,000 shares of stock outstanding, while today, owing to the conversion and retirement of all its bonds, the retirement of preferred stock and the issuance of common stock for additional property, it has 232,000 shares, its only form of capitalization.

It need hardly be said that, financially, this year's profits will put the company in extremely strong position. It will, for the first time, have a large working capital and should be entirely independent of the banks up to the producing season; in fact, the indications are that it will be able to finance its dead season expenses and begin the production of next year's crop with a balance of several million dollars.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—After quite a spell of dulness the market has again broken out of the rut, but this time on the down side. From a technical standpoint this would be construed as an unfavorable sign. No immediate cause can be ascribed for this; no doubt, it is simply a continuation of the readjustment process. Reports of some industrial companies for the second quarter of the year have brought home the disastrous effect of falling commodity markets on corporate earnings. There is, of course, this to be said, that the losses sustained were not in the course of business, but were the result of a marking down of inventories to correspond with present prices. Once this loss has been taken, it will not have to be indefinitely repeated. Fortunately, most companies have accumulated such surpluses that where such losses are inevitable, they can be absorbed without disaster. Nevertheless, the fact becomes clear that 1920 will be a difficult operating year. Not only that, but it might as well be recognized that the day of abnormal margin of profits has departed. We have become so used to enormous earnings on inflated levels that it will be difficult to adjust ideas to the more moderate earnings that must henceforth be expected.

A very interesting piece of news was the figures of our foreign trade for June—the largest imports on record and the smallest balance of trade in six years shows clearly that we have reached the climax in our creditor position. While this is still another step in the readjustment process and generally would be regarded as unfavorable, we do not consider it altogether in that light. There is nothing to be gained by piling up foreign credits; on the contrary, a more even balance of trade would tend to improve the foreign exchange market and make more feasible the repayment of sums owed us abroad. Only recently the unfavorable effect of occupying a position of solitary grandeur as respects the exchange market was furnished by the falling to a discount in Argentine exchange, which had hitherto commanded a premium. The immediate effect was to stop purchases by that country in this market. It has been said for a long time past that we must be prepared to take payment of interest, if not of principal, of foreign loans in goods. This theory is now being put into practice.

The next event of importance will be the increase in railroad rates, whereby the country's transportation bill will be increased, presumably, by about one and one-half billion dollars—a figure equal to 50% of our entire transportation cost in 1913. We have a feeling, however, that more effective operating than under Government control may save an appreciable percentage of this added cost.

We wish we could say that we feel that the market had entirely completed discounting the readjustment process, but such is not the fact. Stocks have been so split up that it is difficult to realize that the majority are still selling far above pre-war levels. We realize that in many instances very large values in the way of reinvested earnings have been put behind stocks; in not a few cases actually more has been reinvested in the last five years than the stocks themselves are selling for.

Important as these assets are, the real value to the holder in the long run is what assets will produce in earning power. This is the final test of any stock's value.

We fear that there are quite a few instances yet of market values that cannot be sustained by future average earnings. There are some cases, no doubt, where new businesses have been built up, and many more where productive capacity has been increased, but the question is whether this capacity can be profitably employed. In the long run, no doubt, it will be, for demands of this country will ultimately grow up to any capacity, but it is quite possible that in several lines there may temporarily be over-capacity.

It will not do, of course, to become too pessimistic at this stage. The readjustment process has been going on now for a period of nine months and in this time there are quite a number of stocks whose price has been cut in half. Much of the excess has thus been corrected. Some issues, we believe, are getting down to a level where one should begin considering their purchase. Probably in the course of the next few months this will be true of the large majority.

ATCHISON, TOPEKA & SANTA FE.—The annual statement of Atchison, Topeka & Santa Fe for its fiscal year to December 31, 1919, contained in the profit and loss account an item of considerable interest which for some unknown reason has received scant attention. The profit and loss figures showed an item of dividend income of $7,214,058. In 1918 dividend income was negligible, amounting to only $38,447. It is understood that practically all of this large item of dividend income represented the payment to the parent company of dividends on the shares of its oil subsidiary and that although this dividend was received in 1919, it really covered the two years 1918 and 1919, no dividend having been drawn down in 1918.

Atchison possesses oil lands of considerable importance in the three states of Texas, Oklahoma and California. These oil earnings do not mean that the railroad has become a producer and seller of oil in a general market sense. A very large percentage, in fact practically all of the oil which its oil subsidiary produces is consumed by the road itself for fuel.

It is understood that Atchison has capitalized its oil properties at $20,000,000. The profits which this oil company realizes on sales to the railroad should permit dividends from time to time. If it be assumed that the average return in dividends will be between $3,500,000 and $4,000,000, it is interesting to note that the latter figure is more than one-third of the total annual fixed charges, amounting in 1919 to $11,654,259. Dividends from oil of $3,500,000 would more than half cover the 5% dividend on the $124,173,700 preferred, or stated in terms of the common would amount to a quarterly dividend at the present 6% rate on the $222,873,500 common outstanding at the close of last year.

There is a factor of considerable practical importance to Atchison in possession of its own oil fuel supply. It gives the road an assurance of relief from the despotism of coal. And in years like 1920, when soft coal has advanced to unheard of selling prices, it means that Atchison is protected against extreme fluctuations in the price of coal.

Atchison gross earnings for the first five months of 1920 have shown a gain of $9,159,218 or 21% over the same period of 1919. The road made some highly satisfactory increases in net after taxes in the March quarter. April and May, however, recorded comparative shrinkages, the natural reflection of freight embargoes, outlaw strikes and traffic demoralization in Eastern territory. For the five months to May 30, net after taxes was $17,311,260, against $10,140,821 in 1919, a gain of $7,170,448 or 70.7%. Of this gain it is only fair to state that $3,191,000 represented back mail pay accruing during 1918 and 1919.

A feature of Atchison operations has been the liberal allowances for maintenance of roadway and equipment. In the December 31 year 35% of gross went back for maintenance, compared with 33.3% in 1918. In previous years maintenance had never absorbed more than 30% of gross. In 1919 the road expended fully $25,000,000 more for upkeep than in the June 30, 1916, year. The up-set of 35% for maintenance in 1919 is unquestionably liberal and in a broad way is probably equivalent to a 40% ratio in eastern territory. It is interesting to note that comparative figures show for the first five months of 1920 an increase in maintenance outlays of 22%, the ratio running at 37% of gross. It is impossible to escape the conclusion that Atchison is one of the most solid and substantial railroad properties of the country with a margin of earning protection for common dividends that promises well for the future.

UNITED STATES STEEL.—The earnings of the Steel Corporation for the second quarter of the year, although they did not quite come up to some of the most optimistic predictions, nevertheless made an excellent showing. It is true they do not compare very favorably with those for the same period recently reported by such companies as Republic Iron & Steel and Lackawanna Steel, but it must be remembered that a few months ago many of the independents were asking and obtaining premiums for their product while the Steel Corporation steadily maintained its regular price level.

Net earnings for the three months ended June 30 amounted to $43,155,705, as compared with $42,089,019 for the preceding quarter. After all charges and preferred dividends the balance for the common stock was equivalent to $3.96 per share, as against $3.88 per share in the first three months. During the six months, therefore, the company was earning at the rate of pretty close to $16 per share annually for its $508,302,500 of common stock.

One of the significant features of the quarterly statement is the increase in the monthly profits. April showed a net of $12,190,446; May, $15,205,518; and June, $15,759,741. In March earnings of $15,704,900 were reported, so that if it had not been for the outlaw railroad strike, with its resultant tie-up of transportation, it is altogether probable that the entire quarter would have produced a net of over $47,000,000, which would have been equal to an annual rate of about $19 per share on the stock.

The results for the second quarter of this year were with one exception—1907—the best ever reported for same period in any previous peace year. The unfilled orders on hand are now larger than at any previous time, except during the latter part of 1916 and the first part of 1917. It is difficult, therefore, to foresee any considerable let-up in the company's earnings in the immediate future, and there is every prospect that 1920 will be the most prosperous year, outside of the war period, in the corporation's history.

It does not, however, necessarily follow that this means any materially higher prices for the stock. For it is the function of the stock market to discount such things in advance, and it is rather noticeable that during the entire history of the Steel Corporation the best showing of earnings has been made in the years of declining security prices. For instance, the second quarter's earnings were largest in 1907, 1910, 1913, and 1917, all of which were bear years.

CANADIAN PACIFIC.—The Canadian Pacific shares have enjoyed considerable activity of late at a higher range of prices than those prevailing for some time past. This is partly, perhaps, in sympathy with the more optimistic feeling with respect to the railroads on this side of the border, and partly a reflection of the possibility that a freight rate advance may be granted in Canada following that expected in the United States.

As is the case with most American railroads, however, there is very little in the current earnings of the

company to warrant much enthusiasm. For, although the Canadian Pacific has been privately operated it has been, of course, subject to tremendously increased costs of doing business. For the decade preceding 1918 the company earned an annual average of around 15% for its common stock and maintained a steady operating ratio of around 65%. In 1918 the expenses consumed 78% of total revenue and in 1919 over 81%, while the margin of earnings over the 10% common stock dividend requirements dropped to less than 1%, actual share earnings being 10.97% in 1918, and 10.80% in 1919.

So far in 1920 the showing of earnings has been about the same as in the preceding year. For the five months ended May 31, net operating income amounted to $8,797,366, as compared with $9,196,056 in the same period in 1919.

It is apparent, therefore, that on the present basis the Canadian Pacific 10% dividend cannot be regarded as any too well protected. An increase in freight rates is necessary. Since the beginning of the war rate advances in Canada average about 10% on passenger traffic and 30% on freight. Further advances of 30% and more in freight rates have been proposed. If any such advances should be granted the Canadian Pacific should be able to earn a good margin over and above its dividend requirements.

The railroad situation in Canada, however, is very different from that in this country. The Canadian Pacific is the only big independent line, practically the entire balance of the mileage being Government owned or operated. These Government systems have been showing large deficits for some time and competition with extravagantly run lines with a Government treasury to fall back upon presents many problems. In fact, it has been suggested by Government officials that there be no increase in freight rates, but that any deficits of the Government railways be met from the revenues of the country. Any such plan as this would, of course, be disastrous not only for the Canadian Pacific, but also for the whole transportation system of Canada. Nevertheless, it illustrates the difficulties which beset a general advance in rates in Canada, as compared with this country, where the Interstate Commerce Commission is required to raise rates under the Esch-Cummins Bill.

PACIFIC DEVELOPMENT.—Net profits of the Pacific Development group on the basis of the consolidated income account in the fiscal year to December 31 last were $1,331,452, a decline of $275,208, or 17%, compared with the previous year.

The company has grown so rapidly that it very properly computes its earnings on the basis of average capital outstanding during each fiscal year. Measured by this test the 1919 net profits were equal to 20.74%, or $10.37 per share.

Pacific Development operated in 1919 under somewhat abnormal conditions. The handicaps imposed on its selling organization in the Philippines, and in China by reason of shortage of merchandise, delays in transportation and general difficulty of distribution made the late 12 months a period of unusual difficulty. The margin of profit per dollar of sales was, therefore, materially less than in 1918. Andersen, Meyer carried over into 1920 some $20,000,000 of unfilled business, against $8,000,000 on April 1, 1919, an increase of 150%. Under half favorable conditions, therefore, this subsidiary ought to be able to realize better results in 1920. Its profits are assured. It is merely a question of the particular fiscal year in which they will be counted.

One of the attractive sides to Pacific Development is the fact that its asset position is so strong. On December 31 the consolidated balance sheet showed Pacific Development had assets of $12,450,526, or $73 per share on the 170,566 shares then outstanding. This was 146% of par and contrasted with assets of $77 per share on 115,454 shares outstanding December 31, 1918.

The recent issuance of about $4,100,000 new stock at par (50) has had the natural result of slightly decreasing the asset values per share. Assuming that there has been no material increase in assets since December 31 and adding the proceeds of the recent financing to the $12,450,526 of assets at the close of last year, it may be shown that the present value for the stock works out at slightly better than $65 per share.

Pacific Development has expanded rapidly in capital during the past 18 months. At the close of 1918 there was outstanding 115,454 shares of $5,772,700 par value. The most recent figures show a total of 256,991 shares, or $12,849,550 stock, an increase in a year and a half of $7,076,850.

It must be frankly admitted that 1920 will be a year of peculiar difficulty for Pacific Development. As a trading corporation, handling a wide variety of merchandise, both exports from the United States and imports into this country, the Pacific Development subsidiaries will have problems of price fluctuation to meet not experienced in previous years. Some shrinkages in inventory are perhaps inevitable. In fact in certain lines they have already occurred. Fortunately, 75% at least of its trading represents exports to the Philippines and China. Here price fluctuations will be less troublesome and unless especially marked, not troublesome at all.

The year 1920 will probably prove to be a 12-month of readjustment and liquidation for Pacific Development. But the company is well entrenched, is prepared to face any shrinkages that are likely to arise and at the close of its readjustment period should be in strong position to take advantage of the attractive opportunities for trade and commerce which are constantly arising in the Orient.

Marketwise, the company's shares have suffered a heavy shrinkage. The recent low for the stock of 40 is exactly half of the 1920 high and shows an income return of 10%. It would seem as if the same

fundamental reasons for long range optimism regarding its future that were present in 1919 are present today. A year of transition should provide for conservation of assets and assimilation of the rapid growth of the past few years.

AMERICAN ZINC, LEAD & SMELTING showed net profits for the second quarter of the year of $147,735, making a total for the half year before depreciation and depletion of $344,977. This exceeds the semi-annual preferred dividend requirements of $241,000 by $103,000.

The spelter market has declined about 1 cent per pound from the high point of recent months. Production has, however, been severely curtailed. There are no large surplus stocks of the metal, and it is felt that the market would respond very quickly to any improvement in the demand.

The American Zinc, Lead & Smelting Co. is endeavoring to diversify its products as much as possible, and with this object in view is building an additional plant for the production of lead-free zinc oxide, of which large amounts are used in connection with the manufacture of fabric and cord tires. The first unit of the new plant at Columbus, Ohio, has, like almost every other construction proposition, been delayed by transportation and labor difficulties, but is expected to go into commission around October 1. This will have a capacity of 7,000 to 8,000 tons annually. This will be followed by another unit of, approximately, the same dimensions, giving the company an annual output of from all plants of 18,000 to 20,000 tons.

Other lines of products have been developed, so that the company is not, by any means, dependent solely on the spelter market, which has always been more or less erratic.

The company's main source of supply of lead-free ore, the Mascot mine in Tennessee, continues to develop very satisfactorily and it is safe to say has more ore in sight than at any previous time.

One feature of decided strength as regards this proposition is its treasury position. At the close of 1919 it has net quick assets of $4,700,000, of which, approximately, $2,400,000 were in cash or its equivalent. About $2,300,000 of the current assets were in stocks of ore, metal and inventories.

Contrary to the experience of many other lines of business, this item contains in this case no element of weakness; these inventories were taken at very low figures and there would be no necessity of taking any shrinkage.

This strong treasury position stands the company in particularly good stead at the present time, enabling it to build its zinc oxide plants without the necessity of financing.

While the zinc smelting business is one of fluctuating profits, the company hopes, by the diversification of products, to build up considerable revenue in other lines. Meanwhile its present net quick assets of $4,400,000 are equivalent, after deducting the par value of its bonds, to $36 a share on its preferred stock.

NEW YORK, CHICAGO & ST. LOUIS.—One of the very few railroads which during the entire period of Government control was able to earn from actual operations, considerably in excess of the Federal guarantee, is the New York, Chicago & St. Louis. This, in itself, is enough to stamp it as out of the ordinary, and the fact that current earnings are running larger than those of last year is of added significance.

The company's capitalization consists of about $37,826,000 of bonds, $4,997,900 of 5% non-cumulative first preferred stock, $10,999,800 of 5% non-cumulative second preferred, and $13,989,600 of common stock. It operates about 523 miles of road from Chicago to Buffalo. Under the Federal guarantee the company was entitled to receive an annual compensation of $2,301,378. In 1918, however, actual net operating income comparable with the Government compensation amounted to $3,834,511. This sum would have been sufficient to pay the full 5% dividends on both classes of preferred and leave 10.8% for the common. In 1919 the road made an even better showing, with a final net of $4,649,809, which, assuming the same deductions as in the preceding period, would mean a balance for the common of about 16.5%.

For the first five months of 1920, the Nickel Plate reports a net operating income of $2,145,253, as compared with $1,995,992 for the same time in 1919. Earnings are, therefore, better than those of last year, so that even without any increase in freight rates the company might be expected to show final profits in the vicinity of 15% for its common. The expected advance in rates, soon to be granted, should, of course, materially increase the earning possibilities for this year.

With such a showing as this, the company has naturally rejected the extension of the Government guarantee till September 1, and the full 5% dividends are now being paid on both the first and second preferred issues. The way might seem open for payments on the common were it not for two factors. In the first place the Nickel Plate's earnings have always fluctuated widely, being very good in years of general business prosperity and very poor in periods of depression. In the second place, the manner in which the operating ratio has been held down, averaging no higher in the last three years than in the previous three years, suggests the possibility that the property may not have been kept up to standard condition, and that large sums may have to be spent for improvements.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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UNIVERSITY OF ILLINOIS

THE GENERAL MARKET.—The week has brought forth two developments of the very first rank; one positive and constructive; the other of a most sinister character. We allude, of course, to the railroad rate increase and to the breakdown of Polish resistance on the eastern front. As one railroad president has said, the rate increase may be considered the crowning act of the Government administration of railroads. If it had not been for the tremendous increase in cost that always seems to accompany Government operation of any business, such a radical increase in rates would not have been necessary to yield the return of 6% on valuations called for under the Esch-Cummins Act. This increase is by far the most radical railroad measure of recent years and its economic effect cannot be immediately forecasted. It must be remembered that transportation is as much subject to the law of supply and demand as is any other commodity. While there is such an extraordinary demand for the movement of goods, no doubt the facilities of the railroads will be taxed to the limit, even at their increased rates, but once let some general reaction in business take place and it may be quite a different story. It has been our boast that the development of this country has been made possible and, indeed, has been largely due, to excellent transportation, at rates that are but a small fraction of those obtaining abroad. It will be to the advantage of the railroads to reduce their rates, as it may be possible to do so, by economical administration. It has been prophesied that these rates will lead to a general advance in the cost of labor. There are two factors to militate against this: first, the tendency of the times is now toward economy, and any effort to pass these rates along, perhaps, with some addition, will be closely watched and strongly discouraged. In short, the increased cost of these rates is much more likely to be absorbed, in part, by corporations than would have been the case a year ago.

Secondly, the amount granted as a rate increase is a direct addition to the transportation cost, to be sure, but it is not a net increase. The Government has had to make good its guarantee of about $75,000,000 monthly from its own pocket, as the railroads this year have earned practically nothing on this. This deficiency, of course, is provided from taxation. The railroads henceforth will be on their own feet and the freedom from tax drain for this purpose should largely offset the direct increase in cost.

Looking at the matter in a large way, it is, no doubt, a most constructive action. It will not prove any panacea, but its greatest benefit will be to restore the credit of all but the weaker lines. Even here, however, it must be remembered that even though this act may stimulate the desire to invest in railroad securities, there is but a very limited reservoir of available wealth to draw on. We believe that this rate increase is a step that is necessary under the circumstances, and in the long run will be beneficial, but its effect is not likely to be felt for some time to come.

The other major development is of really equal importance. The lesson of the last six years will have been lost if we still look upon world developments in the old, provincial manner. Anything that would make it difficult or impossible to enforce the terms of the peace treaty, or that would tend to restore a strong balance of power inimical to the Allies, will be fraught with the gravest danger. Only a strong policy that has been sadly lacking hitherto will insure a safe outcome. The Polish question today is nearly as much our question as it is that of France or England. To ignore it, or attempt to belittle it marketwise, is not a sound policy.

The point has been made that the banks have large, unused lending capacity and could still further this lending capacity by waiving a part of the reserve requirements. This is a fact, and this fact affords an element of reserve strength that almost precludes any possible panic. To use this unless absolutely necessary would, however, invite disaster. Deflation is the order of the day, and we believe it is only by steadily pursuing the present policy, unpleasant though it may be, that we shall, eventually, reach a firm foundation. The banks today are carrying large loans for operators in certain commodities. This may be a necessary step, but it is not the final solution of the problem, and it would certainly add to the dangers of the situation to increase, instead of insisting upon the ultimate liquidation of these loans.

During the last six months the price of the majority of industrial stocks has been reduced anywhere from 25 to 50%. This has decidedly improved the situation and one must, accordingly, modify one's views. We would go so far as to say that some stocks have reached a price where their present valuation should be warranted by average earnings. This, however, is by no means true of all; the previous rise was so great that we are apt to forget that, based on probable future earnings, a great many stocks are still high. Until the point has been reached where it can be definitely said that stocks are a good purchase for permanent investment, we feel that readjustment is likely to continue, but this point is much nearer at hand than it was six months ago.

AMERICAN LOCOMOTIVE.—The record of American Locomotive during its six months to June 30 is peculiarly gratifying, not alone because of the strong earnings achieved in the face of abnormal operating difficulties, but because the results are so much better than at one time appeared possible.

Early in the year it seemed likely that American Locomotive in the half year might not earn the full 3% paid in dividends during that period on its $25,000,000 common stock. The company not only did earn the full 3%, but it earned the entire year's 6% dividend on the common, with a margin of safety of 25%. In fact, the half year, despite its unpropitious start, produced a common share balance of $7.61 per share, compared with $6.81 per share in the six months to December 31, an increase of ¾%.

Of course, it makes comparatively little practical difference whether the common dividend is earned in any particular half yearly period. The equipment industry is one of sharp rises and recessions. It is the full year which tells the story and there has at no time been any question in the mind of American Locomotive directors that the fiscal year to December 31, 1920, would show much more than 6% for the common.

What makes the results for six months to June 30 especially significant is the fact thay were attained with manufacturing operations averaging 35% of capacity. American Locomotive differs radically from the great majority of industrials in that it can reap excellent profits when running at a percentage of capacity at which other industrials would actually be turning out red ink figures.

This is the law of compensation so far as American Locomotive is concerned. Stern experience has shown that its business is of a highly variable nature. To meet this condition the company has created a plant system and an organization which is able to make substantial net earnings at an abnormally low percentage of capacity operation.

The six months to June 30 was a period of extreme operating hardship for all equipment companies. American Locomotive to get raw materials and parts into its various plants has had to steadily employ many unique and costly methods. Its orders had been taken at a fixed price, so that the cost, for example, of a force of freight detectors, or the free use of auto trucks for short haul work, has come out of the company and not out of its railroad customers. When these extraordinary burdens are taken into consideration, it is a tribute to operating efficiency to state that manufacturing costs in the six months just ended absorbed 85.6% of gross, against 85% in the second half of 1919, when freight congestion was far less onerous.

American Locomotive is a producer of apparatus calculated to remedy the freight paralysis of the railroads. But in getting the materials and fuel to make its locomotives it is just as dependent on good railroad service as any other industrial company.

A few deductions from the six months report are in order.

The unfilled orders June 30 of $44,073,632, an increase of $35,073,711, or 389%, compared with December 31, are equal to more than double the $21,769,679 of gross business handled in the late six months. If one were to assume a continued 35% of capacity basis of operations it might be argued that American Locomotive had a year's business on hand. As a matter of fact, the company could produce this $44,000,000 of forward orders in six months if operating conditions were favorable.

The broad view is that it makes comparatively little difference just how large or small unfilled orders are because the public and the regulatory authorities realize that the paramount need of the country today is for more equipment. The new rates just ordered by the Interstate Commerce Commission if they mean any one thing mean that the railroads must be so restored in credit that they can purchase the equipment they so sorely need.

In the half year American Locomotive increased its working capital $664,478 to a total of $36,350,489, a sum equal to over $45 per share on the common, after providing for the preferred at par. There was expended in the half year for plants $1,402,097, compared with expenditures in all of 1919 of $1,747,836.

The equipments as a group are one of the few industrial companies who have no important inventory problem. American Locomotive increased its inventories $5,500,000 between December 31 and June 30, but it has so preserved its resources that it could show even more of an inventory expansion without discomfort.

ATLANTIC GULF & WEST INDIES.—It is highly satisfactory that in a twelvemonth of transition, Atlantic Gulf & West Indies was able to make so excellent a record of earnings as it did during the fiscal year to December 31 last. The 1919 annual statement, whose issuance has been aggravatingly delayed by reason of complications of Government regulation and accounting, shows a balance for the $14,963,400 common 4½% larger than the preliminary estimate sent to shareholders in April.

The net for the common of $5,575,605 was equal to $32.68 per share and represented an increase of $2,865,617, or 105% over the reported earnings for 1918. The 1918 figures, however, were only fragmentary because the failure of the shipping board and railroad administration to settle promptly with the Gulf operating subsidiaries so maimed their income accounts as to tell only a partial story of their actual 1918 results.

Proof of this is seen in the recent settlement by the railroad administration with the Clyde and Mallory lines according to which they are to receive $4,019,782 in cash, of which $3,107,557 has already been paid. The claims of the Southern Steamship Company are likely to add another $500,000 to this total. The large claims of the Ward and Porto Rico lines have not been adjusted, except so far as the steamships Soboney, Orizaba, Agwidale and Agwistar are concerned.

At least a portion of the $4,000,000 settlement with the railroad administration represents 1917 and

1918 net profits and shows how much more apparent than real was the comparative decline in 1918 common share earnings.

Atlantic Gulf at the end of 1919 had in operation 73 steamers of 268,599 dead weight tons. In addition it was operating for its own account on charter 14 other steamers and was operating on a commission basis 88 steamers for the shipping board. This is a fleet of 165 steamers, the aggregate tonnage of which may safely be placed at 600,000 tons. Atlantic Gulf is rapidly assembling its fleet of 14 tankers of 172,400 tons deadweight. If it continues to operate on charter or for account of the shipping board as many ships as at present, Atlantic Gulf, when its tankers are all delivered by next May, will have under its charge a fleet of 180 ships representing over 750,000 tons, a total of 75% as large as that of International Mercantile Marine. This is merely of interest as showing how large is the scope and grasp of the Atlantic Gulf steamship influence. And to those who claim to be pessimistic on account of the starvation rates accorded coastwise shipping it may be pointed out that less than a sixth of its 73 owned boats, to be exact 11, are now engaged exclusively in coastwise service.

In a year of transition like 1919, Atlantic Gulf was able to earn over $30 per share on its common, exclusively from steamship operation. The net from steamers in 1920 is pretty certain to be less than in 1919. At the same time there is still enough resiliency to these earnings so that despite strikes, terminal tie-ups and congestion, high cost fuel and abhorrent operating difficulties, the company is almost sure to earn better than the $10 common dividend from the steamship end of the business.

Everyone appreciates that the day of tremendous steamship profits is a matter of history. But it is only partially appreciated that Atlantic Gulf directors grasped this fact two years ago and have created an oil industry which promises an earning future that will exceed the palmy days of 1916 and 1917. And at the same time there is no reason to doubt that the profits from steamships will be able indefinitely to carry the 5% interest charge on the $24,715,500 bonds and the 5% dividend on the $13,742,900 preferred.

Atlantic Gulf ought to realize some handsome profits from its 172,000 tons of tankers. Were these boats in service today at current rates they would pay for themselves in 12 months' time, so keen is the demand for oil and so short is the supply of tankers. Of course, Atlantic Gulf is not figuring on the continuance of such fantastic rates, but on the basis of very conservative estimates it may be assumed that the $34,000,000 of tankers will have paid for themselves in four to five years.

Atlantic Gulf's oil operations have taken it to Mexico, Colombia, Cuba, England and France. The metamorphosis of Gulf from steamships to oil has been many times commented upon. The fact that the corporation has been exceedingly fortunate in this period of transition in having a steamship business able to carry all charges and dividends is a point which also deserves great consideration.

It may easily mean that in years to come the earning power of its oil business will be the exclusive equity of the common.

SINCLAIR CONSOLIDATED.—Ever since the organization of the present corporation, with a greatly increased capitalization last fall, the shares of the Sinclair Consolidated Oil Corporation have been among the weakest of the oil stocks. And yet, judging from the income statement for the six months to June 30, 1920, this must be attributed more to technical conditions than to poor earnings.

The Sinclair Company has outstanding 3,832,744 shares of stock of no par value, and $50,000,000 of 7% bonds, together with some $6,000,000 of subsidiary company bonds. In 1919, the total net income of all the concerns which went to make up the present corporation amounted to $19,601,236, or the equivalent of $5.22 per share on the stock outstanding. In the first half of 1920 the company reports a net after interest and federal taxes of $15,542,676, or $4.11 per share for the common stock. Gross sales for the six months were $67,000,000, or at the annual rate of $134,000,000, as compared with total sales of $77,000,000 for all of 1919.

Sinclair may, therefore, be said to have earned at the rate of better than $8 annually for its stock in the first half of 1920. But at the present time it has $50,000,000 of bonds on which interest will have to be paid from now on, and on July 15, the outstanding stock was increased some 75,000 shares through the payment of a 2% stock dividend. Indeed, a 2% stock dividend has been declared for each quarter up to and including April, 1921, at which time there should be over 4,000,000 shares in the hands of the public. However, even allowing for the interest on the new bond issue and applying the balance to 4,000,000 shares, the earnings of the last six months would have been equivalent to an annual rate of pretty close to $7 a share.

EASTERN STEAMSHIP LINES, INC.—The rate increases allowed the railroads will also apply to the coastwise steamship lines and to these it will mean as much, and perhaps, in some cases, even more than to the railroads.

To the Eastern Steamship an advance in freight rates of 40% and passenger rates of 20%, to which it would be entitled, would, theoretically, on the same volume of business that the company did in 1919, mean an increase in revenue of about $1,250,000. As a practical matter, if half of this amount were realized in net earnings, it would be decidedly gratifying.

In the 1919 calendar year, Eastern Steamship earned, after all deductions, a surplus of $209,388. In the first six months of this year, its net earnings have fallen behind that for the corresponding period of 1919 by $428,000. Possibly some of this difference might have been wiped out before the end of the year, but assuming no great change in this score, the point is that another year's operations with this rate increase

might be expected to show a surplus for the company of, perhaps, $400,000 or $500,000. After allowing for dividend requirements on the preferred, this would amount to $6 or $7 per share on the common stock.

This result, of course, will not be obtained in the current calendar year; the rate increase will not go into effect until about the first of September, when the bulk of the company's carrying business for the year is over. At the same time, it is quite possible that it may aid it to the extent of some $200,000 or $300,000 for the balance of the year and instead of having to perhaps, discontinue services that have hitherto been unprofitable to operate, it may be found possible to continue them.

Financially, the company is in excellent shape, with its funded undebtedness reduced to about $1,000,000 which is not unlikely to see a further reduction, and with net quick assets of about $1,000,000.

POSSIBLE RAILROAD EARNINGS.—The increase in freight and passenger rates granted by the Interstate Commerce Commission this week has directed more attention to the railroad stocks than they have received for some time. With the passage of the Esch-Cummins Bill last winter it was assured that very large rate advances would have to be allowed, but nevertheless the actual announcement appears to have crystallized favorable sentiment toward the rails. This is by all means the largest rate increase ever granted by the Commission, amounting as it does to 20% on all passenger rates, 40% on freight in the Eastern territory, 25% in the Southern, 35% in the Western, and 25% in the Mountain-Pacific territory.

It is, of course, as yet impossible to arrive at any accurate and definite idea as to what these increases will mean to each individual railroad company. A sizable part will be eaten up by the recent advances in wages, and probably on most roads maintenance expenditures will have to be materially increased. For the country as a whole it has been estimated that wages will take 40% of the total increase granted.

In view of the interest attaching to the earnings possibilities of the leading railroads as a result of the new rate schedule we have attempted in the following table to make a rough estimate of possible earning power. From the total increased revenue on the basis of the 1919 business we have deducted 40% for wages and 20% for additional expenses. This latter figure is purely arbitrary and in actual practice might vary considerably. Nevertheless, we believe that the results obtained will offer a fair indication of how the roads may be expected to benefit. And the most striking conclusion is that the rate increase probably will not prove a panacea for all railroad ills. Those roads which have been able to make a good showing heretofore will, of course, be much strengthened; those which have been on the border line will probably be saved; but those which in the past have never developed any substantial earning power for their shares are not likely to now as a result of this rate increase alone:

ROAD	1919 Freight Revenue	1919 Pass. Revenue	Estimated Inc. Net Revenue	Estimated % on Stock
Atchison	$144,500,000	$52,600,000	$21,500,000	22.5%
Baltimore & Ohio	136,800,000	37,700,000	24,900,000	5.00
Boston & Maine	43,300,000	21,800,000	8,600,000	6.00
Chesapeake & Ohio	53,000,000	14,000,000	6,400,000	16.00
St. Paul	106,200,000	30,400,000	17,300,000	3.30 on pfd.
Rock Island	73,500,000	31,400,000	12,800,000	8.50
Chicago & Northwestern	92,000,000	35,200,000	15,700,000	11.00
Erie	85,300,000	14,600,000	14,800,000	2.30
Great Northern	77,300,000	19,600,000	12,400,000	7.50
Illinois Central	75,800,000	24,300,000	11,600,000	10.00
Louisville & Nashville	76,800,000	24,800,000	9,600,000	22.00
New York Central	188,200,000	85,300,000	38,000,000	21.00
New Haven	49,200,000	44,700,000	11,400,000	4.00
Northern Pacific	73,000,000	20,300,000	11,800,000	8.70
Pennsylvania	238,800,000	102,000,000	46,400,000	8.50
St. Louis-San Francisco	53,000,000	23,500,000	9,300,000	19.00
Southern Pacific	143,000,000	58,400,000	21,800,000	15.00
Southern Railway	82,000,000	36,800,000	11,300,000	10.00
Union Pacific	129,000,000	35,700,000	20,900,000	26.00
Western Pacific	11,200,000	2,000,000	3,200,000	8.50

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 870 August 13, 1920

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THE GENERAL MARKET.—The prospect of a bumper corn crop and an average crop of wheat and other cereals, all bringing high prices and transported at the new increase in railroad rates, means a very great and real addition to the national wealth widely defused. Every year, our crops seem a particularly critical factor. This is certainly most true of this year both from an economic and humanitarian standpoint. Apparently we shall have a fair balance of wheat for export. This is something to be really thankful for, when there is such a great need of it abroad, and, incidentally, the fact that there is a surplus should tend to reduce the price to us at home. This will at once furnish very remunerative traffic to the railroads at the increased rates, both directly and indirectly. Incidentally, the increase in rates of the transportation of the grain itself, unless passed along and multiplied, should be scarcely noticeable to the ultimate consumer.

The foreign situation can hardly be said to be any clearer. We think that all must regret heartily the policy that has made such a situation possible. For the distant future, this is fraught with the gravest possibilities, but so far as the immediate influence on the market is concerned, we are inclined to think that the acute phase will probably have passed within a few days more.

The effect of the railroad rate increase on individual companies is being studied by thousands all over the country, and the widely varying results arrived at show that too much reliance cannot be placed on any one set of figures. Yet, the general effect will be large, and unquestionably the result in some instances will be tremendous. For so many years past the railroads have been so abused and their securities held in such disfavor that we have rather got out of the habit of paying much attention to individual results, especially as these results for the past year and a half under Government operation have meant practically nothing. We believe it is going to pay one to renew the habit of studying this subject carefully. Henceforth, the figures of monthly earnings will mean something. As yet the market has taken little cognizance of the change. There has, however, been a significant stiffening of railroad bonds—a good sign—as improvement begun here means that investors are gradually coming into the market, and augurs well for the blossoming of permanent speculation later on. Already, railroad operations are beginning to show the results of private control. Railroad men report a re-birth of that indefinite but most important thing lacking under Government operation—"esprit de corps." Car miles per day and tons per mile show surprising increases. It is not at all unlikely that the railroads will be the leaders in the next move.

It is now nearly ten months since the bull market culminated in the Fall of 1919. Much has been accomplished since then in the way of market deflation and adjustment. Nearly all excesses have been eliminated. We cannot but feel that in most groups, liquidation has been pretty well completed. Even granting this, however, which we do not yet believe to be universally true, we do not at all think it probable that we shall turn at once from a "bear" market to a "bull" market. Two things are greatly against this. First, the bank position puts it out of the question. There has been no improvement here, and with the crops beginning to move, the reins will be drawn as tightly as ever. Secondly, while the stock market may have been fairly well liquidated, the industrial world has not been. To be sure, there has been a severe drop in the price of many commodities, but loans secured by those commodities still exist, and the great majority of industrial companies are still carrying heavy inventories. A few classes of stock, however, stand out as purchases. We have already spoken of the railroads. Another we believe is the coppers. When these stocks sold for over twice their present price in 1916, everything was as rosy as could be. Today we admit that, superficially, conditions are the exact reverse. The copper companies are still producing at only about one-half capacity, and even for the curtailed production there has been some recession in price. But if it were not for these conditions, the copper stocks would not be selling where they are. It is inconceivable that conditions could be much worse; consequently, any material change must be for the better. Here, as always, the market will discount the improvement in the situation surrounding the business, before the improvement itself takes place.

Generally speaking, we should expect for the next few weeks, some backing and filling, with possibly some uncovering of additional weak spots. Reactions, however, should gradually become fewer and less severe. We are frank to say that outside of the two groups mentioned, stocks, in spite of the liquidation that has occurred, do not, as a rule, seem to us to be on the bargain counter, but to this rule, as to all others, there are no doubt exceptions, and it seems to us that henceforth the correct attitude to take is to look for those exceptions.

THE PORPHYRY COPPERS.—While the results of the copper mining companies during this period of depression in the industry, with a falling metal market, are not, naturally, very flattering when expressed in dollars and cents, there are operating results being secured that are of the greatest significance to those who have an eye to the time when conditions in this industry will be reversed.

The charge was originally made against the porphyry copper mines that they would prove to be inelastic; that it would be difficult, if not impossible, to make their operations conform with changing conditions in the industry. They have at various times in the past refuted this charge, and that they are doing so again may be observed from the figures on the four Jackling properties that we submit herewith:—

	Recovery	Cost per pound
Utah Copper		
1918	65.11%	12.53c
1919	78.46	12.37
1st quarter 1920	86.14	11.94
2nd quarter 1920	82.8	11.05
Ray Consolidated		
1918	74.92%	15.62c
1919	79.45	14.94
1st quarter 1920	78.65	16.30
2nd quarter 1920	82.69	15.34
Nevada Consolidated		
1918	67.28%	15.69c
1919	70.49	16.14
1st quarter 1920	67.97	20.72
2nd quarter 1920	70.04	15.56
Chino Copper		
1918	63.27%	14.62c
1919	65.67	15.31
1st quarter 1920	70.07	13.91
2nd quarter 1920	69.44	15.29

It is explained that the unusual cost figure of the Nevada Consolidated for the first quarter of 1920 is due to adverse conditions obtaining during that quarter when the mill recoveries were decreased materially because of the necessity of including an exceptionally heavy tonnage of low grade highly oxidized ores from the upper levels of the shovel pits. In practically all other cases it will be noticed that there has been a very decided reduction in cost from the high level, and this, in spite of the fact that these properties are producing at only about one-half capacity, and are paying labor charges far above what used to be considered a normal figure.

Such results as these during a difficult operating period forecast brilliant financial returns for this group when conditions shall become more favorable.

THE RAILROAD RATE INCREASE.—The public generally and, for that matter, Wall Street itself, have never been more at sea in judging the possible effects of an important market factor than they still are over the recently authorized railroad rate increase. Further investigation of the rate situation has impressed us with the fact that probably not in the past twenty years, with the possible exception of early 1915 when the war orders came flooding in, have prices and values of an important group of securities been so far apart and in such a maladjusted condition as are the railroad stocks at the present moment.

Public investment opinion is badly muddled, partly because of a current lack of familiarity with railroad securities on account of their having been neglected for the past six years, partly because of the confusion as to potential earning power arising from the dislocation of the regular traffic channels during the war, and partly because of the difficulty in reconciling Government methods of accounting with the ordinary methods of the railroads.

Furthermore, the extraordinary rate increase, varying materially as it does from 40% in the Eastern to 35% in the Western and 25% in the Southern districts, is another cause for a complete readjustment of ideas as to values; while still again the broad changes that have been made in the general situation as it affects the several roads necessitates analysis from still another view point.

From the facts as they are now coming to light it seems quite possible that such roads as the Great Northern and Northern Pacific, which enjoyed such a strong position in the years before the war, have had their earning power impaired to an extent that is not materially offset by the rate increase. The St. Paul, also, will hardly recover in the near future the position it maintained before the Pacific Coast Extention was launched.

In the South the road which had attained the greatest strength before the war, Louisville & Nashville, has had its position still further improved by the rate increase; while Southern Railway, although actually benefiting from the increase, is not relatively as strong compared with some other low-priced stocks, as it was just prior to the making of the award.

In the West, Union Pacific will apparently maintain its leadership of earning power, and Atchison will gain more than Southern Pacific. All three will remain much above the average for the country while the new Western Pacific is given a sensational earning power for its common stock.

It is in the Eastern group, however, that the most remarkable readjustments both as between the several roads and between the commonly assumed and actual earning power of the same road must be made.

The Commerce Commission evidently took the Pennsylvania as the base line and made the rate award so that this road would earn 6% on its stock. The rates which make possible this earning power for Pennsylvania, however, have a widely varying effect on other roads in the district.

The other great trunk line, New York Central, will earn its dividend by a big margin, and Erie, Delaware & Hudson, and Chesapeake & Ohio, will be greatly strengthened.

The most remarkable effect, however, will be on Baltimore & Ohio, which apparently will gain more by the rate increase than any other road in the country. Its surplus for the common stock will probably be considerably larger than it ever was before the war, and it seems a virtual certainty that this road will be able to resume dividends in the not very distant future.

We believe that the possibilities contained in the process of readjusting present railroad security values with present market prices are so enormous that this readjustment will be made regardless of general monetary and industrial conditions. This readjustment will, in our opinion, be made within the next twelve months. After that and when the prices have been made to conform with earning power it is likely that the rails will furnish comparatively little incentive for speculation, as their earnings will be practically fixed within certain fairly definite limits.

COMMODITY PRICES.—For the last six months the trend of commodity prices has been unmistakably downward, and in the past six weeks this movement which was slow and hesitant in asserting itself, has been considerably stimulated.

Just as in the period of advancing commodity prices there were certain groups which were slow to respond to the upward urge, so in this year of declining prices there have been great groups which have shown extraordinary resistance. Perhaps the most prominent of these is the steel group, for pig iron, Bessemer iron, steel billets, bars, rails and structural shapes are all materially higher than a year ago. In some cases as much as 60%.

Without inquiring too deeply into the causes of this sustained high price for steel, it may be ascribed in part to automobile and equipment demands, and in part to the general world shortage of structural steels. The price of lumber has also shown marked resistance to price decline and even at today's quotations, is selling as high or slightly higher than a year ago, although a little less than in April and May when the effect of transportation difficulties was to cause a further temporary bulge in price quotations.

One of the earliest commodities to break sharply was silk. The precipitancy and violence of this decline has afforded interesting evidence of how comparatively slight a slackening in demand is required to tumble over a weakly pyramided price level.

The declines in hides, wool and leather also came comparatively early and appear to have largely spent their force, at least for the time being.

A pronounced feature in the change of commodity prices has been the shrinkage in the quotations for standard food stuffs. In a recent week, for example, it was shown that the index number of 31 staple articles of food was $4.53 compared with $5.25 in the same week in 1919, a decrease of 72 cents or 14%. The tendency in food prices has been sharply in a downward direction in the last six weeks. In raw sugar the decline from the high price of 26¼ cents has amounted to 50%. It is of course obvious that the great bulk of the Cuban crop was sold long before the price of raw sugar touched its record price. In fact, the average price which Cuban producers received for their late crop was not far from 11 cents a pound. The effect of this decrease has been to hold the price of granulated at a more stationary level. More important, even, have been the falling prices for all cereals, particularly wheat, corn and oats. The promise for the 1920 harvest has improved so materially that it may be assumed that barring an unexpectedly large export movement in cereals, this downward tendency will continue for some time.

There was a very sharp break in hog prices accompanied by a decline in other meat products in the late Fall of 1919. The recent low price for hogs of $13.40 represents a shrinkage of $9.60 or over 40% from the 1919–1920 high.

One of the notable features of the very general decline in commodity prices which has been going on for the last six months and which has been so sharply marked in recent weeks, is the fact that the effect of these declines for the most part has not made itself felt in retail prices. The reason for this is perfectly obvious. Jobbers and distributors are naturally working off the goods on hand at as near the old price level as possible before establishing new prices based on the decline in wholesale quotations.

In considering the question of high prices touched by commodities during the past two years it should be borne in mind that probably very little business was ever done at the extreme high levels of 1919–1920. Most of these extreme prices were made either after crops had been marketed or before they had come to market so that the great bulk of trading was done at a level substantially lower than the record quotations established by a comparatively few transactions.

In order that our readers may have a picture of some of the significant changes in commodity prices we have prepared the following table showing the recent low, the 1919–1920 high and the decline from

this high of a considerable number of important commodities. The list does not pretend to be by any means exhaustive, but it does give a fair variety of representative commodities necessary for the daily life of the country:—

	Recent Low	1919-1920 High	Decline	Percentage Decline
Wheat	2.20	3.50	1.30	37%
Corn	1.39½	2.17	.77½	36
Oats	.67	1.35	.68	50
Barley	.85	1.70	.85	50
Rye	1.70	2.45	1.45	60
Sugar	13.00	26.50	13.50	50
Rice	6.50	13.50	7.00	52
Tea (Formosa)	15.00	22.50	7.50	33
Coffee	17.00	31.00	14.00	45
Flour	10.25	13.60	3.35	25
Hogs	13.40	23.00	9.60	42
Sheep	8.00	16.50	8.50	52
Beeves	16.00	20.35	4.35	21
Bacon	19.00	31.00	12.00	40
Cheese	27.50	37.00	9.50	26
Potatoes	4.00	13.50	9.50	71
Lemons	2.00	9.00	7.00	77
Steer Hides	.25	.53	.28	53
Hemlock Leather	.40	.60	.20	33
Union Leather	.68	.90	.22	24
Oak Backs	.75	.95	.20	21
Cotton	—	—	—	—
Wool (fine delaine)	1.60	2.40	.80	33
Wool (half blood)	1.40	2.00	.60	30
Wool (low quarter)	.40	1.15	.75	65
Jute	.10	.14	.04	29
Silk	5.00	16.85	11.85	70
Flax	.07½	.15	.07½	50
October Cotton Mid.	.32½	.37¼	.04¾	13
Print Cloths 64's	.13½	.17½	.04	23
Sheetings	.25	.31	.06	20
Pig Iron	51.80	50.05	*1.75	*3
Billets	65.00	60.00	*5.00	*3
Tinplate	9.00	7.00	*2.00	*3
Silver	.99½	1.34½	.35½	26
Copper	.19	.23½	.04½	20
Lead	.08½	.09¼	.00¾	1
Pig Tin	.46	.72½	.26½	36
Petroleum	6.10	6.10	—	—
Linseed Oil	1.30	2.22	.92	41
Cotton Seed	.10½	.23½	.13	59
Rosin	.11	.21¼	.10¼	48
Nails	4.00	5.25	1.25	24
Yellow Pine	60.00	66.50	6.50	10
Hemlock	57.00	60.00	3.00	5
Alcohol	6.00	7.00	1.00	14
Hops	.93	1.05	.12	11
Rubber	.29¾	.51¼	.20½	40
Tobacco	.30	.52	.22	42

*These commodities are now higher than the 1919-1920 previous high up to July 1, 1920.

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THE GENERAL MARKET.—Up to about three months ago, when commodity prices suddenly ceased to soar and began to drop, there was a continual cry of under-production. It is now quite apparent that the real trouble was not under-production but over-consumption. Individual and corporate income had been so stimulated that reckless buying ensued, buyers bidding up prices on themselves. Hence, the apparent scarcity of goods. Emphasis should be laid on the word "apparent." As soon as buying eased off, it developed that the law of supply and demand had been functioning as usual, and that there were plenty of goods to meet all normal requirements. Of course, there were, and still are exceptions to this, as in the case of building materials. Nevertheless, this rule quite generally holds. Now we see the reverse of these conditions. People are cutting off all possible expenses, and instead of a normal amount of buying, purchases are probably sub-normal. This condition will continue until it is fairly certain that the drop in prices has ceased. No merchant or manufacturer is going to stock up with goods on a falling market. The high prices that still remain in a few lines are probably the result of transportation congestion and fuel troubles, rather than extraordinary demands. As soon as these are straightened out, these lines are also likely to yield. This condition will continue until prices come down to levels that will begin to attract buyers, and merchants and manufacturers gain sufficient confidence to replenish their inventories. When this point shall have been reached, we shall have a far healthier condition than when doing business at such high levels, but, meantime, the process is playing havoc with corporate earnings. This is not a situation to arouse much market enthusiasm.

The more the rate decision is studied, the more it appears that this will create a new era for railroad companies, although results vary widely from one road to another. Naturally, those to receive the greatest benefit are those companies doing the largest volume of business in proportion to their capital stock. It is, of course, to be understood that all earnings that may be figured from the rate increase are not available for dividends. In fact, there is an express provision that all earnings beyond an amount equivalent to 6% on valuations shall be divided equally between the Government and a reserve fund to be established by the carrier which shall accumulate until it equals 5% of the value of the property. Even without this provision, a large portion of the increased earnings would have had to be devoted to the up-building of the properties. The fact remains, however, that this increase in earnings will furnish a great bulwark of safety, and in some instances warrant a moderate increase in dividends.

Perhaps the most disquieting feature is that in spite of all business hesitation and pressure to liquidate, the banks are approaching the crop-moving season in no better shape than they were at the beginning of the year. The reserves of the Federal Reserve Bank—the last reservoir of wealth—have been drawn down nearly to their legal minimum. It may be possible to get by the next few months without any more severe stringency, but certainly there is no margin to finance any "bull" movement.

On top of this is the continued threat of the foreign situation. To be sure, the immediate crisis seems to have passed, but so long as there is any danger of the Westward spread of Bolshevism, there will be a very great menace in this situation.

We do not feel justified in taking a strong constructive position until we feel that stocks are really cheap, and by "cheap" we mean selling at or below prices that will be justified by probable future earnings. Some stocks have, we believe, already reached this level, notably the rails and coppers. In a few instances it may be true of the industrial shares, but we cannot, frankly, think that it is yet true of this class as a whole. Tremendous values have, to be sure, been placed behind most of these stocks, but this will avail nothing unless these new assets develop corresponding earning power. In time they will do this, but it will take some time yet for demand to grow up to new productive capacity. By far, the greater part of the liquidation has been accomplished, and some good opportunities exist, but the point is that it is likely to be a long time before there is another big rise in stocks that formerly led the market.

INTERNATIONAL CEMENT CORPORATION.—Action of International Cement Corporation directors in declaring an initial quarterly dividend of 62½ cents per share or at an annual rate of $2.50 is a conservative step based upon a satisfactory treasury and earning position and fortified by excellent prospects of strong future earnings.

The annual report of International Cement for the fiscal period to December 31 showed net profits after deduction of $425,434 for interest, taxes and miscellaneous charges of $317,604, a sum equal to $1.21 per share on the 262,014 shares at present outstanding.

Earnings since January have shown a most satisfactory monthly expansion, increasing by regular graduations from a net for dividends in January of $29,299 to $256,162 in June.

The quarterly statement for the three months to March 31 which was enclosed in the recently issued annual report disclosed net for the stock of $225,346, or at an annual rate of $1,000,000. This is more than three times the earnings of the 1919 period and means that in the first three months of 1920 the corporation's profits ran at the rate of $2.44 per share.

The June quarter was productive of a further pronounced upward swing in net earnings. The balance for the stock in this period amounted to something more than double the profits of the March quarter. The exact figures were $547,590 or $2.09 per share. This is an annual rate of $8.36 and coupled with the March quarter's earnings means that in the first half of 1920 International Cement earned nearly $3 per share or close to a $6 rate.

As a matter of fact as business prospects now stand the second half of 1920 should witness a net for the stock after all deductions of at least $1,000,000 which would result in share profits for the year of about $7 per share.

Each of the four operating subsidiaries, in Texas, Cuba, Argentine and Uruguay has been showing substantial earnings in recent months. The Houston plant of the Texas Company has been doubled and further increase in earnings from this source may be expected in the second half of 1920. It will be appreciated that the Texas and Uruguay companies were both profitable enterprises before they entered the International Cement early in 1920. The broad improvement in earnings has, therefore, related to the Cuban and Argentine properties both of which were forced to pass through a tedious construction and development stage.

The demand for cement in Cuba has been exceedingly strong and has absorbed the maximum productive capacity of the Cuban plant at very satisfactory prices.

The point cannot be too strongly emphasized that due to the fact that the United States cement production has remained practically stationary for a series of years and because of scarcity and high price of coal the American cement companies have no considerable exportable surplus of cement. This leaves the Cuban and Argentine markets practically dependent on their own domestic supply. The prosperity of Cuba has greatly stimulated all classes of construction work and in this development cement is one of the most essential raw materials.

Many of the operating difficulties which assailed the Cuban and Argentine plants in 1919 have now been satisfactorily solved. In particular the introduction of oil burning instead of coal has solved the fuel problem.

In adopting an initial dividend rate of $2.50 International Cement directors have capitalized only a portion of present earning power and future prospects. There remains an undivided balance of profits which can be returned to the business either as additional working capital or utilized in part for property requirements.

THE MATHIESON ALKALI WORKS.—There has been progressive improvement in the earnings and financial position of The Mathieson Alkali Works during the past 12 months. This condition is partially reflected in the preliminary income figures for the fiscal year to June 30 last which show total net profits before taxes and preferred dividends of $711,077, of which $241,792 was realized in the six months to December 31 last and $469,284 in the half year ended June 30. In other words, net profits in the second half of the fiscal year were nearly double those of the first half year and were at an annual rate of approximately $940,000.

The net results of the late fiscal year would have been even more satisfactory had it not been for serious interruptions to production at the Niagara Falls plant in March, April and May. The physical difficulties encountered in those three months were promptly corrected as soon as the cause of the trouble was discovered. It seems safe to assume that this unexpected development cost the loss of at least $300,000 of additional profits which otherwise would have accrued during the second half year.

When the new management took hold of Mathieson Alkali in September of last year it quickly discovered the necessity of creating an independent selling organization of its own so that the corporation's products which are a basic element required by a wide variety of manufacturing concerns might be handled direct rather than through an outside sales agent. This has been accomplished with the establishment of general offices in New York and district sales offices in Providence, R. I., Charlotte, N. C., Philadelphia and Chicago.

The task of putting the Saltville, Va., works on a paying basis has proved an undertaking of no mean proportions. This plant was not productive of any profit until after January, 1920. Since that date the development of earning power has been consistent and should be even more fully rounded out through the use of a portion of this plant as well as the works of a new chemical company negotiations for the acquisition of which are now under way. This new branch of the business is in connection with the production of Barium products which will comprise a fairly complete line of commercial chemicals including barium chloride and barium sulphate, the latter being known in the trade as "blanc fixe." Barium compounds are freely used in such industries as paper, leather, rubber, paint and photography. The deposits of barytes ore which it will control through the new company are sufficient to assure an indefinite supply the necessary raw material.

Logically the expansion of Mathieson Alkali's business into the barium industry should in time create

a second major source of net profits and give the corporation a double base for its business. Incidentally its advent into this new field will enable the Saltville works to utilize the $1,000,000 by-products plant which has been producing no earnings whatever.

The past 12 months have very clearly been a period of transition for Mathieson Alkali and while it may suffer to some extent for the balance of this year on account of low price contracts made by its former sales agent, it is beginning to witness the realization of the highly constructive work already accomplished, and this should be very noticeable beginning with the first of the year, when it will be operating exclusively on the contracts made by its own selling organization.

THE NEW ENGLAND ROADS.—The New England railroads as a group will by no means be restored to anything like a satisfactory financial condition as a result of the rate award. If the increased rates made possible a 6% return on the valuation of the several roads, as was intended by the Esch law, the earnings for the several stocks would be very satisfactory. But owing to the fact that the New England roads were grouped with the Eastern lines, it seems doubtful, unless operating costs are radically reduced, if several of the roads in this section will earn much of anything on their stocks.

As this "grouping method" has a very direct bearing on the earnings of the various roads it may be well here to explain the peculiar circumstances in which the New England railroads are placed. Located in a thickly populated corner these roads have comparatively short hauls and have to perform what practically amounts to terminal service for the big trunk lines operating west of the Hudson River. Such a service requires costly facilities which have entailed a relatively large property investment by the roads in this district.

Now in order to provide a 6% return on this big investment it would have been necessary to make rates much higher in New England than elsewhere; and as this would have been unfair to New England industry, the New England roads accepted grouping in the Eastern district, instead of in a special group of their own. But while this made possible a rate increase for New England on a parity with the rest of the East, the high valuations of the New England roads raised the total valuation for the entire Eastern group so that rates for this group were made higher than if New England had been set apart.

These higher rates it is estimated will add $25,000,000 to the earnings of the Eastern group, and as this was due entirely to the big property investment of the New England lines, and as this large investment was in turn necessitated by the special service performed by these lines, it is contended that this $25,000,000 should be allotted to them by a fairer division of revenue from through business.

Indeed it seems imperatively essential for the future of New England's transportation facilities that this additional income be granted the roads of this section. For under present conditions it appears that even with the rate increase the New Haven will hardly more than earn its fixed charges and the Maine Central's dividend appears to be seriously endangered.

The Boston & Maine is somewhat better off than its two connecting lines; but while it will apparently show something earned for the common stock, the balance after fixed charges and preferred dividend requirements is not large enough to restore the credit of this road to its proper basis.

Negotiations are now pending between the New England roads and the trunk lines for a readjustment of the joint rates but as the trunk lines, and especially the Pennsylvania, are not overburdened with riches, and as they benefit directly only in a very small way from the higher rates permitted because of the high valuations of the New England roads, it may be necessary to appeal to the Commerce Commission for a settlement.

INTERNATIONAL MOTOR TRUCK.—In its June quarter International Motor Truck produced a total of more than 2,500 Mack trucks compared with 1,870 trucks in the March quarter, an increase from a 7,500 per annum rate to a 10,000 per annum rate.

Net profits of International Motor Truck have been showing continuous monthly progress.

In its June quarter net after interest and depreciation, but before taxes and reserves for contingencies, was $2,145,363 compared with $1,293,057 in the March quarter, a gain of $852,306. The June net was 180% larger than the $764,989 earned in the same period of 1919.

In the first quarter of 1920 International Motor set up $325,000 for taxes and contingencies and in June quarter more than trebled this reservation to $1,025,000, so that in the half year $1,350,000 was charged against earnings for taxes and reserves or nearly three times as much as the $457,000 set up in the same period of 1919.

In all of 1919 only $930,000 was reserved for taxes so that the sum appropriated in the first half year was actually greater than for the entire 1919 fiscal year.

In its June quarter International showed a dividend net of $1,195,363 compared with $968,058 in the March quarter. The June quarter net was at an annual rate of $4,781,000, or 12.6% on the 283,108 shares of common after deduction of 7% dividends on the preferred issues.

For the half year there was an actual common stock dividend balance of $5.65 per share above preferred dividends showing that earnings are running at the rate of $11.28 per share with the strong probability that all of 1920 will produce $12 per share for the junior stock. Net of $12 would mean that the stock is earning 29% on its present selling price.

One of the most interesting developments of International Motor in recent months has been the steady increase in its production of larger sized trucks. At present between 50 and 60% of the total units manufactured by the company are in the larger sizes up to 7½ tons, while at the end of 1919 only 40% was in the larger units. This tendency is significant as showing the strict commercial character of its output and the position of growing importance which the truck is gaining as an adjunct for industrial transportation.

There may be some recession in demand for the lower grade and lighter trucks but International Motor holds an unique position as a manufacturer of high-grade heavy trucks for commercial use and there promises to be a marked under-production of this grade of truck for a long time to come. High class heavy trucks should profit because of the recent increase in railroad freight rates which furnish a strong argument for still larger use of heavy trucks.

UNION TWIST DRILL.—Sales of Union Twist Drill which early in 1920 absorbed in its financial structure its former subsidiaries, Butterfield & Company, Inc., and the S. W. Card Manufacturing Company, have been showing a gain of nearly 20% over 1919. In the half year to June 30 the corporation's billings to customers totaled over $3,300,000, or at an annual rate of better than $6,600,000 compared with a 1919 total of $5,600,000. In 1919 the parent company did $3,600,000 of business, but its two subsidiaries handled an output of $2,000,000 additional.

In the consolidation effected the first of the year the financial position of Union Twist Drill was considerably strengthened by the addition of $1,000,000 new cash. The present financial structure consists of $3,129,600 7% Cumulative Preferred and 200,000 shares of $5 par common now selling in the market for between 25 and 26.

As of January 1, Union Twist Drill had net quick assets of approximately $4,444,000, a sum equal to the par of its preferred with a balance of $1,315,000 or $6.50 per share for the common. In other words, in net quick assets alone the common had 130% of par or 25% of the present market price. It seems safe to assume that earnings are now running at a rate to show net quick assets by the close of 1920 close to $5,300,000, a sum equal to $10 per share for the common after setting up par for the preferred.

In January, Union Twist Drill had a surplus of $4,160,070. By the year's end surplus should approximate $5,000,000, or $25 per share on the common.

On the basis of the manufacturing profit shown in 1919 it may be estimated that 1920 profits for the common will be between $6.50 and $7 per share compared with $5.26 per share in 1919.

Union Twist Drill is paying dividends on its common at the rate of $2.50 per share, so that at current market prices it shows an income return of 10%. On its selling price of 26 the common in 1920 should earn at the rate of better than 25%.

The company is in the fortunate position of having no floating debt, a cash balance approximating $700,000 and accounts receivable of nearly $1,000,000. There have been no signs of a letup in its volume of new orders and inventories are in thoroughly satisfactory condition.

There is no reason to suppose that the present $2.50 dividend measures the utmost return that common shareholders may expect. In times like the present directors will naturally make haste slowly, but the business is one of great inherent stability, especially as the bulk of its machinery products are for replacement purposes. In other words, it is not depended on new customers for the bulk of its sales.

ISLAND CREEK COAL COMPANY.—It will be recalled that in order to avert a threatened coal famine and to assure a profit that would induce the average producer of coal to mine as much coal as possible, the price of this commodity was advanced on the first of April. Previous to that time, the Island Creek Coal, as an exceptionally low-cost producer, had been making a small profit, and, naturally, with this increase, its profit was somewhat increased. It should be understood, however, that at no time has this company taken advantage of the tense situation in coal, to do anything approaching profiteering; in fact, it has steadily refused to sell any coal above a figure which is but a small fraction of the prices that have recently been quoted in the trade.

The record for the company for the first half of the year has been as follows:—

	1st Quarter 1920	2nd Quarter 1920	6 Months 1920	6 Months 1919
Tons coal sold	406,420	354,892	761,312	626,913
Net profits after taxes	$387,051	556,121	940,173	381,936
Equal per share on common stock	$2.62	$4.04	$6.64	$2.00

It will be noted that the earnings of the second quarter of 1920 were at the rate of over $16.00 a share on the stock.

This is accomplished with production at the rate of about 1,500,000 tons of coal a year—about 25% less than in past years.

With a better car movement, it is to be expected that this company will show an increased production, particularly as it is opening up new mines.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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Members of
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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
High Grade
Investment Securities

DEC 8 1926
UNIVERSITY OF ILLINOIS

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 872 August 27, 1920

THE GENERAL MARKET.—The week's budget of news has been two-sided. The foreign situation, which only two weeks ago looked so threatening, is now much brighter. The immediate crisis here seems to have passed. On the other hand, business at home is not improving as, indeed, could hardly be expected. Failures of companies whose stocks are listed on the Exchanges are beginning to creep in. In spite of denials it is now an established fact that the automobile and tire industry has very much slackened. This can no longer be attributed to transportation congestion, but represents a lessened demand. This is bound to be reflected in other lines.

We are rather inclined to question the theory of accumulated work to be done, based on the supposition that whenever progress is halted, that progress must be made up at a later date. There is a certain minimum of work involved in the feeding, clothing and providing shelter for 100,000,000 people. It is now developing however, that whatever lack of production was caused by concentrating on war effort has already been largely made up. Of course, mills and factories cannot remain closed indefinitely; supplies in some lines must already be running low, but new demand will be more discriminating than that which caused the inflated profits of recent years. No new enterprises on a large scale are going to be undertaken at present prohibitive costs for the three great essentials—capital, labor and material. It is only when new work is being prosecuted that we have in full measure what we call "good times."

This week the increase in railroad rates goes into effect. It is a commentary on the situation that, as yet, there has been very little discounting of the anticipated benefits. One can imagine what would have happened if any such increase had been granted, say, in 1916. To be sure, in most predictions of earnings under the new rates, it is assumed that the railroads will do a volume of business equal to that of the last year and one-half; also that the State Commissions will grant rate increases on intra-state business equal to those granted on inter-state business. These assumptions are hardly likely to be realized in full, but shortcomings here should be largely counterbalanced by increased efficiency.

It must be remembered, however, that possibilities in these stocks are no longer unlimited. The old days when one might risk his capital in a railroad enterprise, and either lose it or obtain a profit in proportion to the risk, have gone—never to return. Railroads are public utilities and under the theory of control built up in the last ten or fifteen years, their profits will always be limited, but if they are to receive as decreed by law, a return of $5\frac{1}{2}$ to 6% on property replacement value, it means such a great gain in most instances that there is surely a wide margin between the present level of stock prices and that at which such a return would be discounted. This is not, however, universally true, and careful study should be made of the effects on individual companies.

We should like to think that the mid-week rally marked the beginning of an upward movement. We, frankly, do not see how such can, as yet, be the case. One thing alone would operate to prevent this; there is not, in any quarter, sufficient buying power. There is certainly not the liquid capital in the hands of individuals sufficient to finance such a movement, and the banks have been drawn upon to practically the limit of their loaning power; at least as administered under the present system.

One can, however, begin to look ahead now with confidence to a time when the present readjustment shall have been completed and stocks will be a purchase on a reduced, but still a substantial margin of profit. There must, however, we fear, still intervene a few months of stringency. There must, above all, be further liquidation in the business world before this is on a sound basis and credit is available to finance such a movement.

UNION OIL.—Union Oil has expanded physically at so rapid a rate since its organization in August of last year that it is necessary to bear this point in mind in getting a true perspective of its present production and income situation.

The final net earnings for the six months to June 30 after deduction of all drilling expenses, depreciation and depletion and after allowance for taxes, were $1,187,378, a sum equal to 86 cents a share on the 1,366,794 shares now outstanding. This is, however, an exceedingly severe test to apply to earning power for the reason that at the beginning of this year Union Oil, exclusive of its 25% ownership in the

Union Oil of California, had a production of less than 3,500 barrels of oil per day. At the present time its net daily production is running at a rate in excess of 10,600 barrels per day.

The trebling of production since the beginning of the year has been accomplished by various purchases and exchanges, and it is, of course, obvious that an expansion accomplished in so short a period has not yet had time to make itself felt in the income account. For instance, in the June quarter the final net profits after all deductions were $752,000, or at an annual rate of $2.20 a share, whereas the six months themselves showed earnings at the rate of only $1.72 a share.

With a continuance of a strong market for oil and with a daily output running at 10,600 barrels a day, it seems entirely fair to suppose that the company's earnings in the second half of this year will easily double the record established in the first six months. In fact, it would not be surprising if by the end of this year Union Oil was earning net after all deductions at the rate of very close to $5,000,000 per annum, a sum which would be equivalent to nearly $4 a share on the present outstanding stock.

A feature of the June 30 balance sheet which is especially attractive is the strong financial position disclosed. On that date the company had cash and current working assets of $11,857,535, against which it had current accounts and other current liabilities of $489,059, leaving a balance of $11,368,476. A portion of this amount has, of course, been utilized in the recent acquisition of the Central Petroleum Company which was purchased after June 30.

This company was acquired under attractive conditions and the effect of this acquisition has been to practically double the wholly controlled output of the Union Oil Company. In addition to a daily production of 10,600 barrels of oil, Union Oil is producing 17,500 gallons of gasoline daily, and now has 56 wells drilling, of which 24 are in Oklahoma, 19 in California, 12 in West Virginia and one in Wyoming.

The development of the property has proceeded along logical lines and has resulted in establishing the company in the most stable producing oil fields of the country. It is entirely likely that it will take another six months before the earnings of Union Oil begin to make a particularly impressive showing, but the proposition has now so broadened from its original scope and its risk is so well distributed that barring unforseen developments stockholders would seem to have the right to expect a consistent, steady expansion in its earning power.

RAILROAD CONVERTIBLE BONDS.—We have several times before called attention to the attractive possibilities among the junior bond issues of some of the more prominent railroads. With their interest practically assured as a result of the increased freight and passenger rates, the governing factor in their price movements from now on should be the condition of the money market. As interest rates fall, bond prices should advance, and rates are so high at present that well secured bonds offer splendid possibilities, not only for a high yield, but also for a decided price appreciation.

There are, however, some railroad bonds convertible into the common stocks of the individual companies which present an opportunity for still further appreciation based on the possible earning power of those stocks. Unfortunately these are comparatively few in number, but we submit below a list of the most attractive, showing the present yield, details of conversion privilege, and possible profit based on the high prices of the last five years. At no time in this period has there been a real boom in railroad securities, and inasmuch as all of these companies promise to earn substantial sums for their common shares under the new rate structure, there is considerable likelihood that, when the next bull market develops, these prices might be much exceeded:

	Conversion Price	Conversion Expiration	High Price Bonds 1915–1919	High Price Stock 1915–1919	Current Price Bonds	Current Price Stock	Yield Bonds
Atchison conv. 4s, 1960	100	June 1, 1923	110¼	111¼	81	83	5.10%
Baltimore & Ohio conv. 4½s, 1933	110	Feb. 28,1923	98⅝	96	68	39	8.65
Chesapeake & Ohio conv. 5s, 1946	*	*	98	71	78	59	6.80
St. Paul conv. 5s, 2014.....	100	Feb. 1, 1926	108⅝	102½	69	34	7.20
New York Central conv. 6s, 1935.	105	May 1, 1925	117⅞	114¼	90	73	7.10
Southern Pacific conv. 5s, 1934 ..	100	June, 1924	115	115	97	96	5.30

*Convertible at 80 up to April 1, 1923; at 90 to April 1, 1926; at 100 to April 1, 1936.

THE EQUIPMENT SITUATION.—The notable strength of stocks like American Locomotive and American Car & Foundry during this long period of general decline in industrial shares may properly be ascribed, at least in part, to the general recognition of the fact that the equipments are undoubtedly destined to share in the heavy buying by American railroads needed to put their rolling stock in efficient condition. In other words, there has been a very natural inclination to class the equipments as semi-railroad securities, at least for the next few years.

It is a very fortunate thing at this time, when the public is so keenly alive to the need of railroad rehabilitation and when a prospective revival in railroad credit is laying the foundations for a financing railroad market that the equipment companies as a whole are themselves in such excellent physical and financial condition. As a group they have wisely conserved their war prosperity, have refrained from embarking on new or by-product lines of production and are so well fortified with working resources that they can handle without banking assistance any buying demands of the roads up to the limit of their present plant capacity.

Early this year we made the statement that a period of free railroad equipment buying could not be expected until May. Unforseen stringency in money and the failure to definitely determine the rate status of the roads combined to prevent a free buying period in the Spring.

Broadly speaking, the amount of new equipment ordered so far in 1920 by American railroads has been disappointing and has not been sufficient to insure full capacity operations by the equipment companies even had they been able to command labor and material to make such operations possible.

Curiously the locomotive companies have fared a little better in booking new business than have the car companies. It must not be assumed, however, from these general remarks that 1920 is going to be a year of unsatisfactory net profits for the equipment companies. American Locomotive, for example, showed in the six months to June 30, $7.61 per share on its common, despite operations at but 35% of capacity. Furthermore, both American Locomotive and American Car & Foundry are earning their preferred dividends from their invested funds. These funds are in a sense idle working capital.

American Car & Foundry, in addition, is doing a record volume of car repair work and it is so large that combined with certain woodworking contracts it is executing for outside concerns, it is earning its 12% common dividend with a tidy surplus. In other words, the three years' common dividend reserve is still untouched.

There is one fundamental error which is made by many diagnosticians of the equipment situation. It is asserted, for example, that composite figures show that American railroads own 2,000,000 freight cars, and starting with this as a base line the volume of business which these cars can move is calculated. The error in this calculation is that the railroads do not possess 2,000,000 effective cars. Even under ideal conditions a certain number of cars are always in repair shops.

Good judges estimate that at least one-third of these 2,000,000 cars are at present out of repair and a large part of this one-third are so badly out of condition that it would be cheaper to scrap them entirely. Stories are told of examining 400 cars to get 10 suitable for a shipment of flour.

The day of sustained railroad buying of equipment may be postponed, but it cannot be avoided. And as long as Wall Street has grasped this fundamental fact, it will probably continue to class the equipment stocks with the railroads.

ATLANTIC GULF & WEST INDIES.—There has been an unusual amount of pessimistic talk in financial circles of late regarding steamship earnings and the claim has frequently been made that steamship profits are rapidly approaching the unsatisfactory levels of 1914.

Without attempting to discuss at length this more or less general impression it is interesting to diagnose briefly the Atlantic Gulf situation and determine just how its earning prospects line up.

There has been a much more rapid recovery in the world's steamship tonnage from the ravages of war and the submarine than seemed possible two years ago. Recent figures show that the world's tonnage is 18% greater than in 1914, despite the terrific losses suffered by Great Britain and Norway. The United States in particular has made sensational gains, having today some 12,000,000 tons of steamers, against 2,500,000 tons in 1914.

The gains in tonnage were somewhat slow in making themselves felt in 1919 because hysterical buying was a world phenomenon. Now this country and to a certain extent much of Europe has clearly passed through the first wave of excited buying following the armistice. In short, for the first time the world's trade has reacted to the apparent fact that steamship tonnage has overtaken shipping demand.

It was precisely because Atlantic Gulf directors realized two years ago that the indefinite continuance of war profits from steamship operation was impossible that they decided after careful deliberation to invest the company's $45,000,000 of treasury assets in an undertaking which would create an independent source of earnings not subject to the vicissitudes of an ordinary freight business. The Mexican oil investment of Atlantic Gulf which, broadly speaking, includes its $34,000,000 of tankers, the French pipe line and topping plants and the English refineries is the tangible expression of the foresight of Gulf directors two years ago. And so favorably have these oil preparations progressed that by the middle of 1921, when its oil business is fully synchronized Atlantic Gulf promises to earn more for its $14,968,000 common than it ever did in the days of largest steamship profits.

It might be well to state frankly what seems to be the probable course of Atlantic Gulf steamship earnings. The net from steamships in 1920 will obviously be less than the $32 per share earned on the

common in 1919. Atlantic Gulf will, however, have no excess profits tax to pay this year, thanks to the Jones bill. In the first half of the year, despite severe operating handicaps, it did earn at the rate of the present $10 common dividend. It ought to do as well or better in the second half of this year.

The decline in Gulf's steamship earnings will be gradual and not precipitate so that by the time oil earnings begin to come in in a large way there should still be substantial profits from steamship operation.

Another fact may be asserted. There is every reason to expect that Atlantic Gulf will be able indefinitely to earn its fixed charges and preferred dividends from its 268,000 tons of steamers. The record earnings it has in prospect for the common will come from the oil business, which when completed will represent an investment of over $50,000,000, a sum equal to over $300 per share on the common stock.

Atlantic Gulf's Mexican oil properties have already reached a self-sustaining basis and from now forward the parent company should not be obliged to advance any further sums for Mexican wells, pipe lines, pumping stations or other property development. Atlantic Gulf has now reached a monthly production of 1,000,000 barrels of oil. This figure cannot be greatly exceeded until the doubling of the 10-inch pipe line is finished sometime in November. Starting in May, with only 200,000 barrels, Gulf has, however, made remarkably rapid progress in so quickly reaching an average monthly shipment of 1,000,000 barrels.

MISSOURI PACIFIC.—Missouri Pacific preferred stock selling at 45, and with more than $10 of accrued dividends due on it, appears to be relatively cheap at this price. The company's financial structure was considerably improved by the reorganization several years ago and a strong showing of earning power was being made just prior to assumption of control by the Government. Now with the new rates in force it seems that the company will be in a better position than ever before.

For the twelve months ended June 30, 1920, the road reported gross earnings of $105,000,000. Assuming that the same volume of business and the same ratio of operating costs be maintained in the next twelve months, the road would show earnings, under the increased rates, equal to about $6.50 a share on the approximately $83,000,000 of common stock; or, applying the balance after fixed charges wholly to the preferred would show the 5% dividend requirement earned two and one-half times.

It is probable that for some time to come the company will need all its surplus earnings for working capital. But the 5% dividend on the preferred stock is cumulative and has been accruing since July 1, 1918, and it does not seem likely that the company will allow this to mount up too heavily when earnings are sufficient to start payments.

Furthermore, it is well to note that a very liberal percentage of gross earnings is being applied to maintenance. For a year or more this has been running considerably above the average for the country; and without much question well above what should be necessary for any extended period. If Missouri Pacific dropped its maintenance charges down to the average for all roads it would show $4,000,000 to $5,000,000 more for net earnings, or an amount equal to $4 or $5 a share additional.

This factor should at least be considered as a reserve earning power which could be drawn upon in the event of a falling off in gross earnings.

In view of these facts, the preferred stock seems a very attractive speculative investment; while the status of the company's bonds has been materially improved. Indeed, we believe that some profitable exchanges of bonds in some other roads could be made into the various issues of Missouri Pacific.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
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Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 873 September 3, 1920

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THE GENERAL MARKET.—A number of dreadful things that at one time or other in the last six months have threatened to take place have not materialized. Bolshevik Russia has not over-run Poland. There has been some coal shortage, but not so severe as anticipated. The cotton crop has not been the failure anticipated; while credit has been restricted, there has not been, as yet, the squeeze feared. It must be admitted, however, that the banks are entering the fall months in a very straitened condition; discounts and notes are at a new high mark. Credit will, no doubt, be found for essential business, but there will be none for expansion or doubtful enterprises. There will be no surplus of loanable funds until there has been additional industrial liquidation and a further period of saving. "Easy money" in the near future is almost inconceivable.

The country is passing through a period of readjustment without anything approaching panic. In some lines the pruning has been rather sharp and severe, a good many paper profits have disappeared. Though there has been a distinct let-down, it has not assumed the proportions that would entitle it to be termed "depression." It must be admitted, however, that there is little in the industrial outlook to inspire enthusiasm in the shares representing these lines of industry. While admitting that liquidation may have discounted the greater part of the readjustment, this is not equivalent to saying that, speculatively, there is as yet any inducement to replace lines of industrial shares. Speculation thrives on prospects of increasing earnings. It is difficult to see how this can be anticipated, industrially, for a long time to come.

Turning to the railroads, however, there is a different story. These have three great advantages in their favor. First, they have no unwieldly inventory account, whose liquidation may entail such severe shrinkage as to wipe out the better part of a year's profits. Secondly, the rate-making body has been enjoined by law to name such rates as will produce a satisfactory return on reasonable valuations, which practically is the same as book value. From this second arises the third advantage—that with this prospect of increasing earnings it will be much easier to provide for financial needs. The problem of financing, which for so long has favored the industrials, is now shifted squarely to the other foot. It is the industrials, as a class, and not the railroads, that will have to do the worrying.

Of course, these generalities cannot be universally applied without disaster. We have said before, but it will bear reiteration, that these new rates will mean results varying widely from one company to another. Moreover, most of the estimates are based on certain assumptions, such as a volume of traffic equal to that of the recent period. These will be only in part realized. Nevertheless, after making all due allowances, the fact remains that in the railroad situation there is plenty to fire the imagination, something that could not have been said for the last 10 years of railroads and cannot today be said of industrials.

It is almost amusing to hear already talk of a reaction in the railroad issues; not that reactions will not occur from time to time, but the fact is, that in contrast with industrial issues, the railroads are selling so far below pre-war or normal levels, that people generally do not grasp the possibilities of appreciation. When a stock has dropped to 50%, or even 25% of the price it used to command, and then for excellent reasons recovers 10% or, say, 15% of the loss, it is a little early to talk of serious reaction.

The stock market always offers opportunity. So far this year it must be admitted the opportunities have been chiefly on the bear side of industrials; henceforth, until the railroads have discounted earnings sufficient to yield 6% on their valuations, the opportunity, in our opinion, lies in this department, while in the investment field, as we try to point out in other articles, there are remarkable opportunities for the rearrangement of bond maturities.

AMERICAN AGRICULTURAL CHEMICAL.—The fiscal year to June 30, 1920, was a period of fairly substantial recovery in net earning power for the American Agricultural Chemical Company. It will be recalled that the June 30, 1919, year was an extremely difficult period for all fertilizer companies, and that in that fiscal 12 months American Agricultural Chemical made a relatively unsatisfactory showing.

On the actual amount of common stock, which it had outstanding at the close of the 1919 year, the company did not quite earn the $8 dividend. On the average common outstanding, however, the net profits were nearly 2½% in excess of the $8 dividend requirements.

The fiscal period to June 30 last showed an increase in total net income of $1,167,085, or 14.2%, while the balance for dividends increased from $4,158,670 to $5,281,562, a gain of $1,122,892. The balance for the $31,979,400 common outstanding as of June 30 was 11.18%, compared with 7.89% on the $31,655,200 common outstanding at the close of the June 30, 1919, year.

It is only fair to state that the increase in earnings was not commensurate with the gain in gross sales or with the very strong trade position which the fertilizer industry occupied. The company's gross sales in its late fiscal period gained over 17% and the increase would easily have been 25 to 30% had it been possible to have secured sufficient labor at the manufacturing plants and at the phosphate mines, and an adequate car service to handle the manufactured product to distributing markets. In other words, the demand for fertilizers in the late year was far in excess of the capacity of the plants to satisfy.

The point deserves consideration that from 1914 to date there has been comparatively little increase in the fertilizer manufacturing capacity of the country, so that the strain on existing plants based on merely a normal increase in annual consumptive requirements is sufficient to tax their utmost productive facilities.

The major reason why American Agricultural Chemical did not show even more than $11.18 a share earned on its common in the 1920 fiscal period was because of the poor results obtained in the half year to December 31. In other words, American Agricultural Chemical, instead of breaking even or showing some net profit during the six months to December 30, as it did in both 1918 and 1919, when it rolled up the largest common share earnings in its history, operated at a considerable net loss in the six months ended December 31, 1919. This peculiar situation is one which is not likely to arise again, and certainly so far as the last half of this year is concerned, it is safe to say that the company will show a very large comparative gain in net earnings during the current six months.

The earnings disclosed in the annual statement just issued would seem to insure the stability of the present 8% dividend on the common. Between June 30, 1918, and June 30, 1919, American Agricultural Chemical increased its common stock by reason of financing and a certain amount of bond conversion, by approximately 72%. There was a further slight increase in the common during the late year of $324,200, due to the conversion of the 5% debentures of 1924. This heavy increase in common stock has now been pretty thoroughly digested in the company's financial structure.

The course of earnings during the past eight years is concisely pictured in the following tabulation. It will be noted that the total net income for the 1920 fiscal year of $9,373,213 was the largest of any 12 months in its history, with the single exception of 1918. The table follows:

Year to June 30	Total Income	Bal. for Bond Interest	Net for Stock	% on Common
1920	$9,373,213	$5,888,766	$5,281,562	11.18
1919	8,206,128	4,943,455	4,158,670	7.89
1918	11,377,107	8,987,423	8,111,018	35.01
1917	8,709,215	6,431,035	5,546,355	21.11
1916	8,174,828	6,328,920	5,445,527	20.57
1915	6,225,121	4,513,239	3,675,145	10.93
1914	5,372,378	3,678,198	3,065,715	7.68
1913	3,657,389	3,103,958	2,592,726	5.23

American Agricultural Chemical continues in strong working capital position. As of June 30 last, net quick assets aggregated $39,463,214, equal to the par of its $12,050,900 bonds, with a balance for the preferred of $27,412,314, or slightly better than $97 a share.

The company was carrying on June 30 a considerable item of floating debt. It must be borne in mind that not only has the company's volume of gross business increased very sharply in the last four years, but the cost of producing a ton of fertilizer has nearly doubled since 1914, a reflection of the increased cost of all raw materials, including phosphate rock, sulphuric acid, Chilean nitrates and the other amoniates required for the nitrogen content of fertilizers.

During the late year the corporation increased its capital assets, including plants and machinery, equipment and floating property, mine property and other investments, by $2,047,252. This money was all provided either from surplus earnings or by utilization of treasury resources. In addition, the company reduced its bonded debt during the year $752,200, of which $395,200 was due to conversion, while $357,000 represented sinking fund provision.

It may also be noted that the company maintained the very high standard of depreciation and depletion charges established in 1919. In the latter year the set-up for these two purposes amounted to $2,294,209, an increase of $881,119, or 62% over the previous year. The 1920 provision for depreciation and depletion was $2,308,351. In two years, therefore, the company has charged for these two purposes $1,700,000 more than what was considered a fair average prior to 1918.

There has in the past been a marked stability to the earnings of American Agricultural Chemical and all the evidence so far at hand would seem to promise that this stability of earning power should be a pronounced feature of future operations.

AMERICAN TELEPHONE & TELEGRAPH.—The point has been many times made in the years before the war that the most characteristic feature of American Telephone was the marked stability of its earnings. Experience has repeatedly shown that in periods of depression and recession in general business, American Telephone has made its best comparative showing.

The enormous earning power accruing to many industrials during the hectic war days created so great an attraction for shares of these companies that the comparison which American Telephone share profits

presented was not only not impressive but the slight decline in its profits and general recognition of the difficulties it was meeting in attempting to hold its position created a genuine background of pessimism as to its ability to continue the long established 8% dividend on its $441,981,200 capital stock.

But in 1920, which is very clearly a year of recession for many industrial companies, American Telephone is acting true to form and promises to produce the largest profits for its stock of any year since 1912.

In the six months to June 30 the condensed income account sent to stockholders showed a balance for interest and dividends of $35,735,154 and a surplus for the stock of $26,328,663. This latter figure was equivalent to $5.95 per share, or at an annual rate of practically $12 per share, which is 50% more than the $8 dividend.

In the fiscal year to December 31, 1919, American Telephone showed a balance for interest of $60,243,387 and a dividend balance of $44,395,791, equal to a small fraction over 10%.

The dividend balance this year has been running at the rate of $52,656,000, an increase of $8,261,000, or 31% over the 1919 figures.

Despite continued increases in operating expenses the probabilities are that American Telephone will earn somewhat more for its stock in the second half of 1920 than in the first half year. A share balance of better than $12 is a reasonable expectancy and if undivided profits of its subsidiaries were to be added, as they should be in getting an accurate picture of the share earning power, it is probable that 1920 would show not far from $15 per share.

The company has now been out just a year from under Government control. It has been a year of maximum physical expansion, measured by station growth and with one exception promises to be the year of largest cash expenditure on new plant. In 1919 American Telephone expended $73,446,000 for plant additions. The 1920 figures will exceed $100,000,000, the largest in its history except for 1917.

The parent company is, however, fully financed and has no need to enter the money market during the balance of 1920. Certain of its subsidiaries may from time to time do financing as their special situations dictate.

A factor which is greatly helping the Bell system is the noticeable revival of the "esprit de corps." This co-operative spirit among employees suffered during the war. It is now coming back and very rapidly. Its revival has been aided by the ability of the company to add 30,000 new employees during the first half of 1920, so that the human overload carried during the two previous years has been largely abolished. The Bell system now has over 230,000 employees, making it one of the greatest employers of labor in the entire country.

The comeback in American Telephone earnings has, of course, been directly due to increased rates, which are now 25% higher, taking the country as a whole, than in 1915. This is the only practical recognition the company has required to keep abreast of the high cost of operation from which all public utilities have suffered.

On the other hand, if the cost of physical equipment it is constantly buying declines appreciably the effect upon the company will be beneficial. It is, of course, obvious that this would be incidental rather than major, as its big item of expense must of necessity always be labor.

From the financial side it would be a decided benefit to American Telephone could its stock recover a market position that would make financing with parent company shares a feasible method of raising new money. It is now several years since American Telephone has been able to offer its stock to stockholders at par. A few years like 1920 and a lower rental value for money would, however, go a long way in this direction.

PANHANDLE PRODUCING AND REFINING.—In the six months to June 30, Panhandle Producing and Refining Co. earned net after operating expenses, including administration, selling expenses and state and local taxes, $956,394. These earnings include certain profits realized on the sale of leases.

The actual balance for preferred dividends after deduction of depreciation and reserve for depletion amounted to $510,359. The six months' requirement for preferred dividends was $153,050, so that in the six months' period the company earned its preferred dividend slightly better than three times.

There was a reserve of $200,000 for sinking fund requirements on the preferred stock set up during the half year. This is a charge subsequent to the dividend obligation. But it is interesting to note that even after allowance of sinking fund requirements, the balance for the preferred stock was more than double the amount required for dividends on the $3,652,500 preferred stock outstanding as of June 30.

In the six months to June 30, the company retired $347,500 of preferred stock, bringing that issue down from the original $4,000,000 to $3,652,500. It now has on hand over 1,000 shares additional of preferred stock which has been acquired from time to time and which will shortly be cancelled, so that the outstanding preferred will shortly be written down to $3,543,500.

The company's balance sheet as of June 30 showed current assets of $1,624,802, which included $224,779 cash and $312,922 in accounts receivable. On the same date current liabilities were $981,862, leaving net working capital of $643,733.

Earnings for the month of July were the best in the company's history. The refining plant was running at close to 4,000 barrels per day during the month. August's operations are expected to equal or slightly exceed those of July, and the refinery for the last week or 10 days has been running considerably above 4,000 barrels per day. In July net earnings after deduction of reserves for depletion, depreciation and

sinking fund amounted to over $57,000, against a preferred dividend requirement of slightly less than $25,000.

It is only fair to state that the depletion and depreciation charges which Panhandle Producing & Refining is setting up are, undoubtedly, ample and in connection with the sinking fund, represent the utilization of two-thirds of net earnings above operating expenses for this purpose.

The company is charging into operations the cost of all drilling expenses whether on improved or wildcat land. Only the pipe casing and equipment of oil wells is being capitalized, and this is depreciated heavily.

The company's oil production at the present time is derived from several different fields, including the Northwest Extension of Burkburnett, the old Burkburnett field and the Electra field. For the first 10 days of August oil production averaged in excess of 1,300 barrels per day net, after allowance for all royalties and all payment of interest to outsiders.

The company recently completed a well near Wichita Falls, showing an initial production of 85 barrels. Another well was brought in in July with an initial flow of 400 barrels and is now making about 250 barrels per day. Since the beginning of 1920 the corporation has acquired several pieces of producing property in the Burkburnett district, tributary to its refinery. The company has contracted for considerable oil in the Burkburnett and Electra fields for its refinery operations and is having no trouble in securing an ample supply for its needs. The corporation has in all 106 producing wells, all of which, with a few exceptions, have been producing for more than a year. Undeveloped acreage amounts to about 35,000 acres.

The refinery at Wichita Falls has a rated capacity of about 5,000 barrels per day, but until within the last month it had never produced as high as even 4,000 barrels per day. This refinery is a skimming plant, makes three grades of gasoline, two of kerosene and fuel oil.

The company also owns two casing head gasoline plants of comparatively small size. In the field it has an unusually complete system of gathering lines through the Wichita County producing districts. In addition, the corporation operates about 300 tank cars, 100 of which were purchased this year.

Panhandle Producing and Refining earnings have been remarkably consistent so far during 1920, and with a continuance of this rate of earnings, it would seem as if the safety of the present preferred dividend distribution had been satisfactorily assured.

SHORT TERM vs. LONG TERM BONDS.—The present situation in the bond market offers some very attractive possibilities through exchanging bonds of one class or classes into those of other classes.

In a general way, it seems that one should sell all early maturities and municipals and buy long term high-grade bonds.

The saving in principal through such an exchange would make it possible to offset large losses which might have been incurred in other purchases of bonds or shares. Indeed, it is possible in quite an extensive way by selling early maturities and municipals to offset losses and to put one's holdings into high-grade bonds without loss of income or principal.

For example, the Chicago, Burlington & Quincy Joint 4% bonds, due July 1, 1921, are selling for about 95; while the Chicago, Burlington & Quincy general 4% of 1958, a better bond, are selling at 77. Here is a possible saving of $180 per $1,000 bond without loss of income, and with increased security.

It may be contended that the Joint 4s will go to 100 when they are payable next July. Admitting this, however, the possible appreciation in them amounts to only 5 points, or $50 on the $1,000 bond; while it appears just as possible that the general 4s of 1958 will advance as much or more on the advent of easier money conditions between now and next summer.

Even larger possibilities of saving of principal are presented if one should exchange the Burlington Joint 4s for Baltimore & Ohio general 4s of 1948, which are also a better bond. This latter is selling at about 64; which would make possible a saving of $300 on the $1,000 bond without loss of income. The Baltimore & Ohio bond, furthermore, has very great possibilities of appreciation, as it used to sell in the 90s before the war, when money was cheaper, and when the road was paying dividends. Now, under the new rate schedule, Baltimore & Ohio's earnings promise to be larger than they were when this bond was selling 30 points higher than its present price.

There are numerous instances of a similar kind where such exchanges may be made. By following this policy an investor may sell out his early maturities and municipals and, with the saving in principal thus effected, offset losses in bonds or shares that have not turned out as well as had been expected.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

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No. 874 September 10, 1920

THE GENERAL MARKET.—In the past week we have had a combination which some months ago would have been thought impossible at this time; that is 6% call money, practically the record low point for the reserve banks' ratio, a heavy crop moving demand, and a generally advancing security market. To put it mildly, this is in rather sharp contrast to the cataclysmic panic which some months ago so many prophets were predicting for us at this season of the year.

As we have several times pointed out in these letters recently, most of the terrible things that were to happen to the country this year have simply not happened; and it is good opinion that we have already had all the panic we are going to have this year. Indeed in many lines it will be grimly admitted that the readjustment has been quite thorough. In silk, leather, wool, sugar and, more recently, in cotton, the break in prices has been quite as sharp as in any of the epochal industrial periods to which we commonly refer as "panics." And for that matter one would have to look back over the record books for a great many years to find a more drastic decline in security prices than has been witnessed since last November. Certainly in view of what has already happened in the security and commercial markets he would be a pessimist indeed who could expect any further extraordinary reaction.

At the moment, while there has been no spectacular skyrocketing of the call money rate, it must be admitted that the situation could hardly be called easy. As stated above, the reserve ratio of the Federal reserve system is down to about its record low mark, and there has been no lessening in the volume of loans and discounts. But, nevertheless, opinion in high banking circles is that the reaction in industry and the sharp drop in commodity prices has greatly improved the general situation, and that, were it not for the current heavy crop moving demands, the money market would be in a fairly strong position.

It seems just now a long way off to really easy money rates; but it may be recalled that a material drop in commodity prices appeared out of the question some months ago, and leaders in the various lines of industry were firmly contending that there could be no break while demand so far exceeded supply. And yet in the face of this apparently sound contention, the market for many of the most staple articles ceased to exist almost overnight. We believe that an equally sharp reaction may hit the money market—as, in fact, has happened in other years when call money dropped from 100% to 3% within a few weeks—and we look for much lower rates after the turn of the year.

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In anticipation of these easier rates the bond market has already begun to advance, and we should not be surprised if something of a runaway affair developed in bonds shortly after January 1. For it is a certainty that high-grade bonds are not going to sell at prices to yield 7% or more, if we get the usual low rates for money that always prevail after a year of reaction in general industry.

But while we look forward to a slackening in the strain on money in the next few months, we do not expect that industrial activity will immediately be resumed on anything like the scale to which we have become accustomed in recent years. As a matter of fact, industrial activity does not develop coincidently with falling money rates; because, indeed, falling money rates are only possible when the volume of industrial transactions is diminishing. It is only after money has been a "drug on the market" for several months that its cheapness induces a revival in demand, and the development of a new era of expansion.

So, possibly for the next six months it is reasonable to expect that the process of commodity price readjustment will continue. The thing has gone so far now that the very psychology of the matter will press it through to completion, even though—insofar as the money situation is concerned—it might be possible to turn the tide sooner.

These conditions, however, will not in our opinion sensibly affect the market for railroad securities. As a group railroad bonds, even of the class which have always been considered second-grade, now appear to be virtually assured of earnings sufficient to cover their requirements. These bonds, therefore, are due for a rise for two reasons: First, because they apparently will be much better secured; second, in a broad way, because of the inevitable drop in money rates. In addition, of course, there will be a cross current of advance, due to the greater benefits that some roads will attain through the rate increase than others.

As for the railroad stocks, we believe that they have only begun to discount their possibilities. A larger earning power is assured to the railroads as a whole than they have had in the past generation, while their stocks are on the average practically at the lowest level in 25 years.

That in a nutshell sums up their present position and at the same time it is daily becoming more obvious that this anomaly is not going to last indefinitely. We feel reasonably safe in predicting that several stocks now selling between 40 and 70 may in the next five years be able to finance themselves by issuing stock at par.

DIVIDEND PAYING PREFERRED RAILROAD STOCKS.—Since the announcement of the increased freight and passenger rates a month ago, a great deal of attention has been directed toward the possibilities of the railroad common stocks and bonds. Comparatively little has been said about the preferred stocks, but it must follow that if earnings are going to be sufficient to leave a sizable surplus for the common shares, preferred dividends will be amply covered.

Accordingly some of these railroad preferred issues which have been able to pay their dividends, and which are now selling at close to the lowest prices in years, would appear to present some very attractive opportunities, not only for investment at a high return, but also for speculative profit over a period of time. We submit below a list of some of the more active stocks, showing the current dividend and yield, and the price range from 1917 to date:

Preferred Stock	Current Price	Current Dividend	Price Range 1917—August—1920		Current Yield
Atchison	76	5%	100½	72	6.6%
Baltimore & Ohio	50	4	76⅞	40⅛	8.0
Chicago Northwestern	110	7	172½	98	6.4
Chicago, Rock Island & Pacific 7%	79	7	88	44	8.9
Chicago, Rock Island & Pacific 6%	67	6	75	35¾	9.0
C. C. C. & St. Louis	67	5	80	58¾	7.5
Colorado & Southern 1st	50	4	62½	44⅞	8.0
Colorado & Southern 2d	45	4	57¾	40	8.9
Kansas City Southern	48	4	59½	40	8.3
Minneapolis, St. Paul & S.S. Marie	90	7	127	80¼	7.8
New York, Chicago & St. Louis 1st	62	5	70	50	8.1
New York, Chicago & St. Louis 2d	52	5	57	40	9.6
Pere Marquette prior preferred	60	5	73½	46	8.3
Pittsburg & West Virginia	73	6	84½	61	8.2
Southern Railway	60	5	75¼	50	8.3
Union Pacific	65	4	85¼	61¼	6.2

ERIE.—Among the low-priced railroad stocks Erie preferred and common seem to be selling farther out of line than the earnings and prospects of the road appear to warrant. Back in 1916 Erie common sold up to 45, which may have been too high; but its present price of around 15 certainly seems too low. The low prices of the past year or so were apparently due to the common belief that the company might have to be reorganized; and evidently this fear of a reorganization has not been wholly removed; although the position of the road is really stronger at the moment than it has been in a long time.

Erie, under the new rates, appears certain to show earnings as large or larger per share than several other prominent railroad stocks that are selling for nearly twice as much as Erie common. It can readily be shown that Erie may earn $6 to $7 a share for its common stock, even after very liberal maintenance charges. In fact, if Erie were to lower its maintenance charges to what might really be regarded as a fair average for the country it could show better than $10 a share.

Of course, Erie's financial structure is its weak feature. But it has no debts maturing now for about two years, and in the meantime through large earnings it may be able to greatly improve its credit. As a matter of fact, Erie has almost always been able to show its fixed charges earned when other roads in a similar position were able to do so; but owing to its closed mortgages it had no security other than notes to use for financing.

In addition to the possibility that Erie may be able to work out its financial problems in the next several years by applying large surplus earnings to improvements, it is believed that there is at least an even chance that it may be taken over by some road with strong credit. The Transportation Act urges consolidations among the big railroad systems and Erie would prove a valuable acquisition to several other roads. A merger of Erie and Lackawanna has been talked of, and while this has apparently not gone beyond the rumor stage, it is easy to see how both roads would be benefited by a consolidation.

Even if the worst possibility developed, a reorganization of Erie with a scaling down in capitalization, the present market price for the common stock equity appears comparatively low.

GENERAL ELECTRIC.—In the 1919 fiscal year, General Electric earned $21 a share for its stock. With the sole exception of 1917, when the capitalization, as well as the necessary deductions for Federal income and excess profits taxes was considerably less, this was the best year in the company's history. From present indications, however, the current year should exceed all previous records in the point of net profits, and promises to nearly equal the share earnings of last year, on a very much larger amount of stock.

For the first five months of 1920, the company reports net sales of $106,252,000, or at the annual rate of $255,000,000, as compared with $230,000,000 in 1919, and net profits of $15,286,688, or at the annual

rate of $36,700,000. No mention is made in the five months' statement of federal taxes. Last year, on a somewhat smaller net profit, they came to $11,000,000. Assuming the same amount this year, final net would be at the rate of $25,700,000. This would be equivalent to about $18 per share on the $138,000,000 of stock, which will be outstanding at the close of the year. It is likely, however, that sales will surpass the $255,000,000 estimated above.

There has so far been no indication of any let-up in incoming business. On the contrary, it is said that billings of new business are now running at the rate of $300,000,000 annually. It is also possible that taxes for this year will not be as large on account of increased property investment. There is, therefore, good reason to believe that 1920 will show final earnings for the stock of at least $20 per share, and possibly more.

The company's balance sheet as of May 31, 1920, makes a striking showing. Net quick assets amounted to over $134,000,000, as against $122,000,000 at the close of 1919, and $129,000,000 at the close of 1918. Total bonds and stock outstanding at that time were only $162,000,000, so that the company had net quick assets sufficient to cover the bonds at par, leaving about $80 per share for the stock. In addition, plants and investments were valued at $113,000,000, or $83 per share, making a total asset value of $163 per share for the General Electric stock.

The company is now paying regular cash dividends of 8% and stock dividends of 4% yearly. This stock dividend has been maintained for three years, and is generally regarded as permanent. At a price of 140 for the stock, this dividend is worth $5.60 a share. The lowest price at which the stock has sold in years is about 120. At this level the stock dividend is worth $4.80 a share. It would seem safe to figure, therefore, on a minimum return of about $13 per share a year. On this basis, the stock is selling to yield about 9%.

UNITED DRUG.—The growth of the United Drug Company during the past few years has frequently been the occasion of favorable comment. This growth has, of course, been accompanied by an increase in the outstanding capitalization, but net profits have more than kept pace with the capitalization, with the result that the company's shares, both preferred and common, have been steadily growing in popularity as investments.

In the first six months of 1920 gross sales amounted to $34,947,343, or at the annual rate of $70,000,000, as compared with $58,000,000 in 1919 and only $33,400,000 in 1916. Final net after taxes was $2,587,595, which after allowing for preferred dividends was equivalent to $6.82 per share on the $29,098,700 of common stock now outstanding. Thus the company earned at the annual rate of $13.64 per share for its junior stock.

The progress made by the United Drug Company in the past four and a half years may be seen from the following tabulation:

	First Half 1920	1919	1918	1917	1916
First preferred 7% stock	$16,171,900	$15,000,000	$7,500,000	$7,500,000	$7,500,000
Second preferred 6% stock ..	1,138,500	1,214,400	9,109,000	9,109,000	9,109,000
Common stock.....	29,098,700	28,792,100	20,050,000	20,050,000	20,050,000
Gross sales	34,947,343	58,338,834	51,028,336	40,716,290	33,404,866
Net after taxes	2,587,595	4,275,004	2,506,609	2,816,557	2,014,809
Per share common	6.82	10.50	7.16	8.70	7.00

The 1919 share profits are figured on the amount of stock outstanding at the end of the year, shortly before the common stock had been increased by the exchange of second preferred. On the amount of common previously outstanding the 1919 results would have been equal to $14.88 per share.

The earnings for the first six months of 1920 as given above do not include any share in the profits of the Boot's Pure Drug Co., Ltd., control of which has been acquired. This concern operates over 600 retail drug stores in England. To finance this acquisition a new corporation has been organized, Liggett's International, Ltd. This company will not only take over the Boot's business, but also the British and Canadian business of the United Drug Co., paying therefor with its own stock. The new company starts with a gross business of $37,000,000 and estimated earnings of about $2,800,000. The possibilities for the expansion and development of this foreign business along the lines that have been so successful with the United Drug Co. in this country add considerably to the potential value of the parent company's shares through its stock control.

United Drug common is now paying dividends at the rate of 8% a year. During 1919 a 7% rate was maintained and previous to that a 5% rate. Judging from the past and present growth of the corporation, it would seem as though the shareholders might reasonably look forward to an increased return as time goes on, either directly through larger dividend payments, or indirectly through valuable rights to subscribe to new securities.

CHESAPEAKE & OHIO.—Chesapeake & Ohio is one of the heaviest beneficiaries of the rate increase in the Eastern District. Almost every estimate of its probable earning power that we have seen shows that the $4 dividend may be earned from four to five times over. In fact, few of the prominent roads in any section of the country are given a much larger estimate of earnings. Besides having this bright prospect under the new rates, Chesapeake & Ohio has had a remarkably good record in recent years, having in the past decade reported surplus earnings over and above all charges and dividends equal to nearly $50 a share on the stock. Physically and financially the road is in very satisfactory condition.

The gross earnings of the company have expanded very rapidly, having more than doubled in the eight years from 1911 to 1919, with no increase in the capital stock, and in the meantime there has been an increase of but $50,000,000 in funded debt. Net earnings also nearly doubled in this period up to 1918, although a sharp increase in costs and a heavy outlay for maintenance in 1919 caused a relatively poor showing to be made.

As a result of the increased rates, together with the general improvement of the road in recent years, it seems likely that Chesapeake & Ohio will be one of the most profitable roads in the country, and in view of these prospects its securities appear to be selling too low as compared with those of other roads that will not benefit nearly so much under the new rate schedules.

The stock is selling at about $60, at which price its dividend yields less than 7%, one of the lowest yields of the leading dividend payers. In our opinion the large earning power indicated under the new rates will make it possible for this company to substantially increase dividends in the next several years; and, assuming that money rates will fall to a permanently lower level in this period, it is not beyond the bounds of imagination to conceive of the company being able to finance itself through issues of stock at par. This seems like a strong statement now; but if the purpose of the Transportation Act is to be realized, that is what several of the railroad companies whose stocks are now selling away below par will doubtless be in a position to do.

POND CREEK COAL.—The Pond Creek Coal Company reports net profits for the first half of 1920, after all charges and tax allowances, of $130,366, or the equivalent of 61 cents a share on the 212,920 shares outstanding.

As illustrating the upward trend of coal prices, it is interesting to note that in the first three months of the year the company earned a net profit of $57,620 on an output of 196,038 tons of coal, while in the second quarter net jumped to $72,745 on an output of 157,863 tons of coal. Had the production of the second quarter been equal to that of the first, the net profit would presumably have been some $35,000 larger, which would amount to about 16 cents a share for the stock.

The low production was due entirely to the failure of the railroads to furnish adequate transportation facilities, the car supply for the Pond Creek mines being only 50% of rated capacity. Improved transportation should enable Pond Creek to materially increase both output and profits. As it was, the half year's profits were at the annual rate of $1.32 per share, as compared with current dividend requirements of $1 per share.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

HH

Members of
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Chicago Board of Trade

WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
High Grade
Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 876 September 24, 1920

THE GENERAL MARKET.—Further drastic reductions in the products of numerous lines of industry indicate that the readjustment process is by no means completed. The fact is that it will not have been completed until the retailer has gone through the same experience as the manufacturer and producer of raw materials. We have seen a good deal recently about falling commodity prices, but as yet one notices little difference in the cost of ordinary things that one buys. In short, the reduction in price has not affected the ultimate consumer; eventually, it must do so. Some have been recently proceeding on the theory that industrial liquidation had been completed and that the next change would be for the better. We should like to agree with this view but, unfortunately, we cannot do so. Reports from industries that have been the hardest hit show little, if any, improvement. Then there are still several commodities that are notably high. Steel, for instance, has maintained its price stubbornly. The last week or two even this has shown some sign of yielding. Last month, for the first time in a year, the Steel Corporation reported a decrease in its unfilled orders. If the forward business of this great corporation has begun to shrink, one can imagine what must be happening to the independents, who have been asking decidedly more for their products. A recession to at least the Steel Corporation's level is pretty generally predicted. Whether it will be beyond this remains to be seen, but it is at least possible. Until the whole gamut has been run, both as respects the different kind of commodities and the different processes of producing and distributing them, the liquidating process will not have been completed.

There are two things that this readjustment has demonstrated thoroughly. First, that the old law of supply and demand is still functioning. Secondly, that recent high prices were not, primarily, the result of profiteering by sellers, but of competition by buyers. As soon as prices reached the point where buying contracted, it became quickly evident that there was really plenty to go around and the moment competition materialized, sellers had to reduce prices. Buyers have really had themselves largely to blame for prices paid. Now that they have grasped the fact that it is no longer necessary to bid up to secure articles, we shall have a far more healthy competitive condition. Profits under these conditions will be very different from those the last few years, but as soon as the markets have found themselves they will still be substantial.

The money crisis, we believe, has probably about passed. This, however, is chiefly due to some recession in business and easy money arising from this source can hardly be considered a bullish factor on common stocks. It should, of course, be distinctly understood that this remark does not apply to high-grade securities, with fixed income. Money rates are here almost the sole governing factor and easy money should stimulate these. Present investment opportunities cannot continue indefinitely.

One benefit to be derived from all this unpleasant process of readjustment is the greater return from money expended for labor. The laboring man unquestionably thinks more of his job than he did six months ago, and we predict that strikes are apt to grow fewer. We do not predict wholesale reduction in the rate of wages paid. Everyone wishes to see labor paid as much as each business will stand, but it is not unreasonable to ask that more should be accomplished per dollar of wages paid than has been the case for the last two years.

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One thing that will strike the observer is that the very process that is, temporarily, so distressing to industrial concerns, is of the greatest benefit to the railroads. These have finally had the price of their product, transportation, fixed at a level that promises a fair return. The decline in the price of materials of all kinds, so unsettling to the business world, means cheaper cost of operation to the railroads. In short, we have the reverse of the inflationary process which has been such a great hardship to public service corporations for the last five years.

There are, to be sure, constructive factors in the making, such as excellent crops, that will have their influence later on and it is also true that much of the industrial reaction has been discounted. By the time that it reaches its worst, stocks will have seen their bottom and be on their way upward, but we cannot but think that this time is still some distance away, and for the next few months there is likely to be quite a distinct cleavage between railroad and industrial shares.

ST. LOUIS & SAN FRANCISCO RAILWAY CO.—The conditions affecting the St. Louis & San Francisco Railway Co. have changed so rapidly in the several years since its reorganization that the public has had very little opportunity to judge of its probable earning power under the revised capitalization.

In the period between completion of the reorganization and the taking over by the Government, the company made an excellent showing; and prospects looked so good when the period of Government operation expired last spring that the company waived the guarantee of Government compensation to September 1.

Now under the increased railroad rates it appears the company will show remarkably large earnings for its stock. If it earned only the 6% on its valuation it would be equal to about $14 a share for the common stock; but estimates of the effect of the rate increase based on the same volume of business as was done last year indicate earnings of over $20 a share for the common.

It is not expected, however, that even should such large earnings accrue the road will start dividends on the common stock in the near future. But certainly the large surplus of earnings indicated should have an appreciable effect on the value of the company's various issues of securities.

In these various issues are contained a wide range of investment and speculative possibilities. Two large issues of bonds, one consisting of $84,211,000 4%s, and another of $24,950,000 of 5s, both issues due in 1950, are the best known of the company's senior liens. They are practically a first mortgage on the entire property, being only superseded by two small issues aggregating $9,360,000. Another issue of $10,598,000 6%s, due in 1928 are equal in security to the 4s and 5s.

Following these senior liens comes two issues of junior bonds, one of $38,761,000 6%s, called Adjustments and the other of $35,192,000 6s called Incomes. The former are cumulative, but the interest may be passed in any year without bringing on foreclosure proceedings; the latter are plain income bonds, non-cumulative, and the interest is payable only when earned. Interest has, however, been paid on both these issues throughout the war period.

In our opinion the two principal senior liens of 4s and 5s are selling too low as compared with other similar issues that are not so well secured, nor so well covered with earnings. Of the junior liens the Adjustment 6s should on any ease in the money market sell much higher, while the Income 6s may be classed with a fairly well secured preferred stock for the present, as they do not mature until 1960.

After the bonds there is a small issue, amounting to $7,500,000, of preferred stock, which is entitled to 7% dividends. The company could easily start payments on this issue, as the requirement will probably be earned 15 to 20 times over. Selling in the lower 40s this issue appears to have attractive speculative possibilities, although the fact that it is non-cumulative tends to militate against it.

The common stock amounts to $50,000,000, or less than 20% of the total capitalization. Of course, any surplus for the bonds and preferred looms large against this comparativley small issue of common stock, but conversely in poor times a small reduction in the surplus would cause a big shrinkage in the per share earnings for the stock. It may be said, however, the indicated earnings for this stock are much larger in proportion to price, as may be noted in the table of earnings in another part of this letter, than almost any other issue on the board.

THE SUGAR SITUATION.—The August crisis in sugar was fundamently due to money conditions. In respect to cause, the abrupt break in sugar was induced by exactly the same influence which has been continuously operating in favor of lower commodity prices for practically all of 1920—namely, inability to finance on an abnormally inflated price level.

As long as raw sugar was advancing from 15 to 26 cents per pound and refined sugar was held stationary for several months, first at around 14 and later around 17 or 18 cents per pound, the pressure upon money was not great enough to create a breaking crisis. But later, when all but 200,000 tons of the Cuban crop had been sold and the effect of the 26 price level for raws had been to force granulated at wholesale to 22 or 22½ cents per pound the money strain upon the sugar trade became terrific. Only a very small fraction of the Cuban crop was sold above 20 cents per pound. In dollars and cents, 26-cent raw sugar meant little because there was so little sugar to sell. But 25 and 26 raws did mean an enormous total in refined. By adding 5 cents per pound to the price level of refined it increased the amount required to take care of our weekly consumption of 100,000 tons by $10,000,000, or over $40,000,000 per month.

The reason that the sugar market broke when it did was because the cumulative effect of the sky-rocketing in raws did not make itself fully felt in the only place it could be felt money-wise, namely in refined, until August.

Out of the chaos which has prevailed in the sugar trade several facts are becoming fairly clear. One is that the advance in raw sugar to any such price as 26 cents was a serious mistake for which the Cubans in particular, but the refiners in considerable measure, were to blame. Co-operative buying on the part of refiners should have been permitted in some legal way, so as to prevent the runaway market which the realization of the Cuban drought promptly initiated.

When the raw sugar market got so far above the world's parity as 26 cents it operated as an enormous magnet drawing to this country sugar from unheard of corners of the earth. In particular, it was Oriental sugars in August which proved to be about the last straw on the overloaded camel's back. A good deal of Java sugar destined to the United States has been resold to other countries. Java sugars have been so unfortunate to American buyers this year that it will be many a long year before we again see this country attempting to absorb 400,000 tons of Javas.

Another fact which is becoming apparent in the present situation is that the United States raw market has now for the first time since January declined below the world's parity. Instead of attracting our price level is repelling imports from unusual quarters of the world.

Because of this and because the statistical position of sugar is so strong, it is the opinion of the leaders of the sugar industry that we have undoubtedly seen the bottom of the decline and that some advance in raws is inevitable. This advance is predicated on buying and some buying by refiners inside the next 30 days is believed assured.

So far as Wall Street is concerned its interest in raw sugar prices lies largely in the probable opening price for 1921 Cuban crop sugars. The factors determining this price level should crystallize during the next 60 days. Broadly speaking, the larger Cuban companies would be disappointed at a 1921 price level of less than 11 cents and they seriously hope for 12 cents. Considerable 1920 sugar has been sold at 12 cents.

Another fact worth noting is that the abrupt decline in raws from 23 to 9½ cents, a drop of 13½ cents per pound was by all odds the biggest break which has ever occurred in a single year. In no other year has the decline been greater than 3 cents.

It must be frankly admitted that with the utterly abnormal conditions which have prevailed in 1920 it has been a most difficult year for refiners. On a rising market they all made large profits during the first six months of this year. The August break has created an extraordinary condition. Too strict enforcement of contracts made with the sugar trade would work serious financial loss to many distributors. Inevitably the refiners as a whole will have some losses to absorb in the second half of 1920, but they have the cushion of the large profits of the six months to June 30 to fall back upon.

It may prove to be the case that the break in raw sugar will have a beneficial effect on the 1921 Cuban crop. Had 20 or 25 cent raw sugar persisted right up to January, the Colonos situation in Cuba would have been most serious. The Cubans in recently holding a portion of their unsold sugar for 30 cents showed their utter inability to appreciate the fundamentals of economics. If the Cuban Colonos reduce their extravagant ideas for 1921 and are satisfied with a raw sugar market stabilized at 11 or 12 cents they will by so much prolong the years during which Cuba may expect to make large sugar earnings. But 20 and 25 cent raw sugar is an urgent invitation to European beet countries to hasten their recovery to normal production. Cuba has it in its power to prevent Europe for years from recovering its sugar production. But such an object can be gained only by submitting to able economic leadership. Unfortunately there is no warrant for believing that Cuba will adopt any policy other than to secure the largest possible measure of present profit.

The August collapse in raw sugar was probably overdone. It was a warning and a very emphatic warning of what may be expected when the price level of any commodity is abnormally increased in too short a time. The world is still short of sugar and will probably be short for several years. But there is a price level at which the consuming public stops buying and a level which imposes a financial burden on the industry greater than it can finance.

ST. LOUIS SOUTHWESTERN.—Few, if any, of the railroad stocks have enjoyed a greater proportionate advance than the common shares of the St. Louis Southwestern Railway. Last June they sold at 11 and have this week been quoted above 35. This appreciation has been due, not only to the large earning power promised as a result of increased rates, but also to the splendid showing of earnings actually made so far in 1920, even on the former rate basis.

During the 1919 year, the company did a gross business of $20,661,000 and reported a net operating income of $1,569,500. This was not sufficient to fully cover fixed charges, so that the road was dependent upon Federal guarantee for the payment of its bond interest. There has, however, been a remarkable improvement in both gross and net this year. For the first seven months of 1920, to July 31, the company reports gross of $16,500,000, as compared with $10,674,000 in 1919, and net income of $2,582,694, as against $272,608 for the same period last year. Ordinarily the St. Louis Southwestern produces a little less than half of its year's net in the first seven months, so that it is possible to estimate 1920 earnings of $8 to $9 without any increase in freight or passenger rates.

With the new rates in effect, it is estimated that, on the basis of the 1919 gross business, St. Louis Southwestern might be able to show earnings of $11 per share on its common stock; and taking the gross business of the twelve months ended June 30, 1920, earnings as high as $20 per share can be conservatively figured.

The big jump in net income during the first part of 1920 has been due, apparently, to greater traffic and not to any skimping of maintenance. Indeed, the company seems to have allowed very liberally for upkeep of way and equipment. In the period from 1913 to 1917, inclusive, it averaged to spend 31% of gross for this purpose, in 1918, 40%; 1919, 45%, and in the first seven months of 1920, 42%.

In the past the earnings have fluctuated very widely from year to year. This has been largely due, perhaps, to the dependence of prosperity in its territory on the cotton crop. There is, however, an increasing tendency toward diversification in its traffic, a tendency which has, no doubt, been aided by the oil development in the Southwest. While it may be a little too optimistic to attempt to estimate future profits on the basis of recent gross revenues, it would seem as though the company should have no difficulty in showing a sizable surplus year in and year out for its common stock. This prospect should greatly strengthen the position of the consolidated 4% bonds of 1932, which are now selling on about a 9% basis, and should make a resumption of dividends on the 5% non-cumulative preferred a distinct possibility.

RAILROAD COMMON STOCKS.—In spite of the activity which the railroad stocks as a class have enjoyed in the last six weeks or two months, they have not as a rule advanced a great deal above the low prices. Many of them are still selling below the prices of the 1907 panic, and all are much below the

highs of the last five years. And it must be remembered that there has been no real bull market in railroad stocks for more than a decade.

We have prepared the following table, showing the low levels of 1907, the range from 1916 to date, current prices, estimated earnings under the new rates before any adjustment with the Government, and the ratio of these estimates to the current quotations.

Of course, so many changes can occur in a period of 13 years as to make a comparison of prices of little value. For instance, Atchison and Southern Pacific are now seasoned 6% dividend securities, while in 1907, they had no very long record behind them, and the fact that those stocks are now quoted 20 or 30 points above their 1907 lows, does not make them any the less attractive. Furthermore, some of the roads that have recently been reorganized, such as the Rock Island, Frisco, Missouri Pacific and Pere Marquette have never had a chance to demonstrate what they could do under favorable conditions, so that the high prices of the 1916–1920 period do not by any means limit the possibilities of the future.

The final column—ratio of estimated earnings to present price we believe should prove interesting as offering some indication of those stocks which would seem to present the most attractive opportunities for speculative profits:

Road	Low 1907	Range 1916—Sept., 1920		Current Price	Current Div.	Estimated Earnings	Ratio Earnings to Price
Atchison	66⅜	108⅞	75	85	6%	22.5%	26%
Atlantic Coast Line	58	126	79⅞	92	7	14.0	15
Baltimore & Ohio	63¾	96	28¾	44	—	17.0	38
Chesapeake & Ohio	23¼	71	41¾	65	4	20.0	30
St. Paul	93½	102½	30¼	38	—	5.5	14
Chicago North Western	126	134⅞	67	75	5	11.0	14
Rock Island	*	45¾	16	40	—	16.0	40
Delaware & Hudson	123⅝	156	83¼	104	9	15.0	14
Erie	12¼	43⅝	9½	20	—	6.0	30
Great Northern	107½	127½	65¾	80	7	8.0	10
Illinois Central	116	109⅞	80⅞	90	7	20.0	22
Kansas City Southern	18	32½	12⅞	22	—	5.0	22
Louisville & Nashville	85½	140	94	102	7	27.0	26
Missouri Pacific	*	38½	19⅞	28	—	9.0	32
New York Central	89	114¼	64¼	76	5	20.0	26
New Haven	127⅜	77⅞	21½	36	—	2.2	6
Northern Pacific	100½	118⅞	66¾	80	7	8.0	10
Pennsylvania (par $50)	51¾	60	37⅞	42	6	18.0	21
Pere Marquette	*	38⅛	9½	28	—	14.0	50
Southern Pacific	63¼	115	75¾	97	6	15.0	16
Southern Railway	10	36¾	18	31	—	10.0	32
St. Louis-San Francisco	*	30½	9⅜	29	—	19.0	65
St. Louis Southwestern	11	32½	10⅞	35	—	11.0	31
Union Pacific	100	153⅜	101¼	123	10	24.0	19

*Present stock not outstanding in 1907.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
in all
Markets on Commission
High Grade
Investment Securities

25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 878 October 8, 1920

THE GENERAL MARKET.—Further price reductions mark the progress of industrial deflation. These, unlike the spring mark-downs, originate mostly with the manufacturer, and thus go further to the root of the matter. They are, however, only one step in the process. That the deflation has as yet proceeded but a short way is evident from the fact that it has not as yet been at all reflected in the banking position. Discounts secured by commercial paper are now over one and one-half billion dollars—a new high record. The New York Federal Reserve statement, it is true, showed a marked improvement, but this evidently was at the expense of the other reserve districts, as the system as a whole showed a slight impairment. In other words, so far as moving the merchandise and liquidating inventories is concerned, the deflation process has only begun. It will take months before these various steps have been completed. Then there are one or two conspicuous industries remaining, where even the first step has hardly been taken. These are in no stronger position than some which have suffered the most seemed to be in eight or ten months ago. We believe they must eventually follow suit. And, finally, there must be some reduction in the wage scale. Quite properly the first cut has come in the margin of profit of the manufacturer. This, however, is only a partial remedy. So large a proportion of the cost of all articles may be traced to labor that there can be no real or permanent deflation until this item is also brought into line. It has always been the case in the broad economic changes that wages follow price both up and down. We see no reason to suppose that this case will be an exception.

There is one gratifying result that is already evident from the cessation of reckless spending, viz.: the investment reservoir of the country—after a long drain—is beginning to fill up. There is today a better and healthier bond market than there has been for years; the demand for capital is still very great and will continue so for months to come, so that any new offerings must be made very attractive, but it is noticeable that in contrast to the experience of a short time back, new offerings are not only quickly absorbed but immediately command a premium. In listed bonds, from Liberties down, there has been a pronounced advance. This is real progress, for it is only by abstinence and saving that the problem will be ultimately worked out.

In another month we shall begin to see the results of the railroad rate increase with the publication of September earnings. Despite the fact that as much freight as possible was pushed through before the increase went into effect, we look for a marked improvement. These earnings, however, must be taken in conjunction with relative capitalization. As recently pointed out by an authority on this subject, credit is as much a matter of confidence as of financial strength. The greatest stimulus to credit is regular dividends, but these are possible only where capitalization bears a proper relation to value. Some of the roads that have been making a very poor showing during the period of Government control still enjoy a high degree of credit because their dividend record has been so consistent. This is a matter that will bear the closest study as the relation between capitalization and value, in conjunction with estimated earnings, will indicate which roads are most likely to inaugurate or continue dividends.

Fully to complete industrial deflation will require several months more. We admit that the market will be well ahead of developments industrially, and that much of this readjustment has already been discounted, but until we are very near the end of this period, it is hardly likely to start a broad movement upward. The railroads have had their drubbing and everything now is in their favor for a long time. To put it tersely, the railroads are on the upward grade; the industrials are near the bottom of a long down grade, but hardly ready—for some time yet—to start on the upward climb.

CUBA CANE SUGAR.—The fiscal year of Cuba Cane Sugar, which was concluded September 30, was unquestionably the most successful in its five years of corporate existence. The final balance for the 500,000 shares of no par common will be somewhat less than the $19.70 per share earned in its first fiscal period, the year to September 30, 1916. But in that year there were no income and excess profits taxes to charge against earnings and the reserve for depreciation was but a little more than a third of the provision in the fiscal year just ended.

The tremendous decline in raw and refined sugar prices and the serious situation which, undoubtedly, exists in the sugar trade of the United States have created so much pessimistic feeling toward all sugar securities that the strong position of established properties like Cuba Cane, Cuban American and Punta Alegre has been temporarily obscured.

Cuba Cane Sugar has occupied a spectator's position during the wave of demoralization which has

swept over the sugar industry since August. Its grinding season ended unusually early this year on account of drought and the company sold its entire production long before raw sugar prices started to tumble.

The company, in its late year, produced a total of 3,765,000 bags of sugar, compared with 4,319,189 bags in 1919 and 3,613,325 bags in 1918. The crop was, therefore, 554,000 bags, or 12% less than in the 1919 fiscal year and 1,000,000 bags, or 21% less than the expected crop of 4,700,000 bags. All of this decrease can be attributed to effect of the drought. The company's mills have a theoretical capacity of 5,000,000 bags of sugar, but this figure can only be attained when cane supply is adequate and sucrose content is high.

Cuba Cane Sugar in its late year averaged a fraction over 10 cents per pound on the crop, compared with 5.398 cents in the 1919 year and 4.630 cents in 1918. It will be recalled that very early in January 25% of the estimated crop was sold at an average of around 6½ cents. As events turned out, the January sales amounted to about one-third of the actual out-turn.

Cuba Cane Sugar in its late fiscal year realized operating profits of about $21,000,000, or 80% more than the operating net of $11,741,618 attained in the 1919 year. The taxation requirements were obviously much heavier than the 1919 set-up of $925,000 and interest charges were naturally greater than the 1919 payments of $555,810, because the $25,000,000 7% convertible bonds were outstanding for nine months of the fiscal year. The company was also able to make a creditable increase in its depreciation allowance advancing this charge to $3,000,000, compared with $1,750,000 in 1919. This $3,000,000 allowance for depreciation amounts to about 4% of the book value of properties and plants.

After all deductions, including the $3,500,000 required for dividends on the $50,000,000 preferred, Cuba Cane, in its late year, may be expected to show a balance for the common of $15 to $16 per share. This would mean that in the five fiscal years since organization, Cuba Cane had earned for its common a total of over $51 per share. This is over and above all deductions, including depreciation and doubtful account reserves. It is equivalent to more than $25,000,000 and contrasts with a present market valuation for the common of about $16,000,000.

The balance sheet of Cuba Cane Sugar on September 30 was easily the best in its entire history. The great defect from which the corporation had suffered since organization of lack of adequate working capital has been fully remedied. The proceeds of the $25,000,000 7% convertibles and utilization of the large undivided profits of the late year have combined to produce this result. Cuba Cane had on September 30 net quick assets of over $30,000,000, contrasted with an excess of current liabilities over current assets on September 30, 1919, of $759,000. Moreover, the company is not only borrowing no money, but had at the fiscal year's close a cash balance of better than $19,000,000.

Cuba Cane Sugar's sale of these bonds was perhaps the most fortunate and timely financial step it has ever taken. It not only immediately cleaned up an awkward floating debt situation, but it has given the corporation abundant resources with which to further the general plan of increasing plant efficiency and economy. Today Cuba Cane is in a position to face an era of lower prices for raw sugar, which it did not occupy three years ago. Its organization is being steadily shaken down and solidified and the corporation has in its big properties Moron, Stewart and Jagueyal three mills and estates which compare favorably with any in Cuba.

Cuba Cane continues year by year to increase the percentage of its total crop produced in the eastern end of Cuba. In the 1919 crop year 38% of the crop was produced at the four eastern properties. In the late crop season the output of the eastern mills was but 30,000 bags less than in 1919, while the western plantations showed a decrease of 520,000 bags. Of the total 1920 crop over 43% was made in the east.

Any prediction of results for the new fiscal year just starting is obviously most hazardous. No one can positively know the price level at which the new Cuban crop will be sold. The sugar market at the minute is demoralized and prices here are well below the world's parity. The tremendous speculation in sugar on the part of American consumers and some Cuban producers has brought the inevitable result. There is a good chance that prices will stabilize before January opens the crop shipment period. And stabilization at prices between 8 and 10 cents, with a crop of 4,000,000 bags, which is a reasonable expectancy for Cuba Cane would mean another year of very satisfactory profits.

Meantime Cuba Cane has already sold at 12 cents, or slightly better than 10% of its anticipated crop for next year. These sales can very properly be considered as sales of its own as distinguished from colonos sugar. And when this point is taken into consideration it is fair to say that Cuba Cane has already disposed of at least 20% of its own sugar at prices that appear most satisfactory in comparison with the existing market quotations. In this respect conditions are the exact reverse of what they were at the start of the 1920 crop year.

ALLIS-CHALMERS.—Allis-Chalmers incoming orders have held up remarkably well during recent months. In August the company booked nearly $3,200,000 of new orders and in July over $2,500,000. September may be expected to show about $2,600,000 of new business placed on order. In other words, the company's incoming gross is holding strongly at $30,000,000, which is within 10 or 15% of actual capacity.

In the six months to June 30, Allis-Chalmers shipped to customers a total of $13,689,703 of apparatus, an annual rate of $27,379,406. The company had on July 31 nearly $19,600,000 of unfilled orders, an increase of $3,734,000, compared with unfilled orders of $15,866,366 on the books December 31, the close of the fiscal year. It is probable that the September 30 total of unfinished business will actually exceed the June 30 figures.

While there has not as yet been any evidence of recession in Allis-Chalmers' volume of incoming orders some letup would not be unnatural during the balance of 1920. If it be assumed that the company will continue to ship $2,500,000 of apparatus monthly during the final quarter of the year and that incoming orders drop from $3,300,000 in August and $2,600,000 in September to an average monthly rate of only $2,000,000 then even on this rigid supposition the corporation should carry over into 1921 fully $18,000,000 of unfinished business.

The carry-over of unfinished business into 1921 may become an important factor in sustaining Allis-Chalmers earnings during the next six months in the event that the recession in general business now so plainly in evidence affects its incoming orders. Allis-Chalmers, in order to earn $8 per share on its $26,000,000 common needs a gross turnover of $28,000,000 to $30,000,000, and to hold production at this rate $18,000,000 of unfilled orders would be a most satisfactory and helpful back log.

The company in the six months to June 30 earned $4.01 per share on its common after deduction of $3.50 per share for depreciation, taxes and contingencies. In other words, a full year's dividend on the common at the present rate was earned in the first half year.

The tax item and contingency reserves for 1920 will very properly be materially less this year than in 1919. In that fiscal year the company set up for these two purposes and charged against earnings $2,368,000. In the half year to June 30, the reservation for taxes and contingencies was about $400,000, an annual rate of $800,000. It should be clearly understood that the reservation for contingencies bears no relation to depreciation. The company is holding depreciation at the same high level of the three years, 1917, 1918 and 1919. In fact, in the half year to June 30 the provision for depreciation was 12% greater than in the same months of 1919. Allis-Chalmers is charging out for depreciation a sum equal to 6% of its total property value, including lands.

There is a possibility that in the second half of 1920 Allis-Chalmers will show a larger manufacturing profit than in the first six months. In 1919 the factory profit was 26.2% of gross sales billed. In the six months to June 30 this percentage had declined to 18.4%, chiefly due to the fact that the business billed in the first half of 1920 consisted principally of orders taken in the first half of 1919, just after the armistice, when prices were temporarily shaded. These lower priced orders have now been cleaned up and the six months to December 31 might easily show a manufacturing profit of 22 or 23%. If this proves to be the case the final balance for the common in 1920 should run materially better than the $8 rate established in the half year, so that for all of this year the company may earn as high as $10 per share for its junior stock.

Allis-Chalmers is doing a very satisfactory volume of motor work. Its output of electrical motors at the Cincinnati plant has been increased to nearly 2,000 per month compared with 1,300 a year or a year and a half ago. The motor production will expand still further when plant equipment for manufacture of fractional horse power units is completed.

The next few months may lead to a new appraisal of the Allis-Chalmers business so far as its character and stability are concerned. The electrical companies have shown remarkable resistance toany recession in general business. The possible renaissance of certain public utilities, including electric light and power companies is helping the electrical business. It is not impossible that the acid test of the next few months will show that Allis-Chalmers is as much an electrical and public service corporation supply manufacturer as it is a producer of apparatus depending on industrial prosperity for its market ability.

The company has remained entirely free from any shadow of floating debt and its working capital is ample to finance its sales.

The corporation has done comparatively little in a commercial way in 1920 in the production of tractors. The tractor business in the United States has been overdone at least temporarily and Allis-Chalmers will not attempt to push its tractor production in any large way until the industry as a whole has stabilized.

PUNTA ALEGRE SUGAR.—Four features in the annual report stand out prominently. First, that in spite of weather and labor conditions which reduced the output of Cuba, as a whole, from the preceding year, Punta Alegre, despite an accident to one of its own mills, was able to show a slight increase in production. Secondly, the company earned $28.50 per share on 232,743 shares outstanding, as against $20 the preceding year on 77,200 shares. Third, that these earnings were made, not on the extravagant prices that have created so much comment, but on an average of a little over 11 cents—an average, by the way, that we believe will be found to be fully as high as that of the large majority of sugar producers. Fourth, that all of the year's net profit after dividends paid may be accounted for by the increase in net quick assets.

The operating figures for the last three years and the present financial position of the company compare as follows:

	Years ended May 31		
	1920	1919	1918
Bags sugar produced	623,620	605,150	442,746
Net profits after all charges, including taxes	$6,652,041	$1,611,655	$737,817
Common stock outstanding (shares)	232,743	77,200	62,000
Profit per share	$28.50	$20.87	$11.90
Total current assets	15,956,085	7,224,930	4,486,270
Total current liabilities	8,735,856	6,384,952	4,640,420
Net quick assets	8,120,229	839,978	153,150*

*Excess of liabilities.

At the closing of the company's fiscal year, approximately, 90% of its current assets were in sugar which had been sold, but for which the cash had not been received, and as against this the company has something over $5,000,000 of notes payable. This situation has now been entirely cleaned up; the company owes no money whatever, and after paying for four months of dead season work has over $1,500,000 cash on hand and sugars that will bring it in a large sum in addition.

The profits of the last two years have put the Punta Alegre in a very strong position. Deducting the company's net quick assets, and assuming no increase in production, the physical properties are now selling in the market for less than $15 per bag. This position would seem to assure the company of being able to compete under any conditions.

All are familiar with the recent perpendicular decline in the price of raw sugars, which was more spectacular even than the advance. As a matter of fact, the current low price for sugars means as little as did the high price touched, as but very small tonnages have changed hands at either extreme. Probably the present quotation is little, if any, above the average cost of production. As the high price of a few months ago attracted sugar to this country from all parts of the world, so the low price is having the reverse effect. Receipts are falling off and there is no question but that the stock of sugars—which at one time may have been very large—is being rapidly consumed. Indeed, according to the principal organ of the sugar trade the stock in all hands has been nearly cut in two in the last six weeks, from 132,000 tons to 70,000 tons.

It must be remembered that the situation that obtains in this country is by no means true of the rest of the world. Other countries have gone without sugar to sell it back to us at the recent very high prices. At anything like today's quotations, however, they will not do this. The fact remains that sugar is one of the comparatively few articles that is still produced in less volume—taking the world as a whole—than previous to the war.

While no one connected, in any capacity, with the sugar business, would wish to see such violent gyrations as there have been in the market for the past year, there is every reason to believe that the price of this commodity will continue at a comparatively high level for some time to come.

The properties of the Punta Company are reported to be in satisfactory condition and the prospect is for a good crop in the coming season.

AMOSKEAG MANUFACTURING COMPANY.—The Amoskeag report for the fiscal year ended May 29, 1920, does not make a particularly brilliant showing in respect to net earnings as compared with the preceding year. In spite of an increase in gross sales of $12,000,000 net profits amounted to only $4,368,917, as against $7,944,945 in 1919. The margin of profit, therefore, was only 7.7%, while the year before it had been 18.2%. It seems likely that a part of this increase in operating rates is due to the marking down of inventories, although to how great an extent it is impossible to say.

Amoskeag now has outstanding 100,000 shares of preferred stock, and 345,600 shares of common stock, both without par value. The preferred carries a cumulative dividend of $4.50 per share annually. Consequently the year's profits were equivalent to $11.33 a share on the common. Current dividend requirements come to $6 a share yearly. In 1919, on half as much common stock the company reported earnings of $43 a share and in the preceding year $26 a share.

It is in the balance sheet, however, that we find the most striking evidence of strength. As of May 29, net quick assets stood at $37,702,000. Deducting $100 a share for the 100,000 shares of preferred stock, the balance remaining for the 345,600 shares of common amounts to $27,702,000, or $80 a share. Thus the company has cash and quick assets in excess of the present market value of its stock.

The Amoskeag is the largest manufacturer of cotton goods in the world, and yet it carries its plants and equipment at only $3,000,000 in the balance sheet. Without attempting to estimate with any degree of accuracy the present value of this property, it should be safe to say that, on the most conservative basis, the actual worth is seven or eight times that figure. The reason, therefore, for the strength of the stock in the face of the general market weakness, particularly in industrial issues, during the past few months is apparent.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 880 October 22, 1920

THE GENERAL MARKET.—The sidewise movement of the stock market during the last week or two may be variously interpreted, according to personal inclination. Those optimistically inclined may, with considerable logic, infer that the business reaction has been discounted; that improvement in the investment market is an indication that a corresponding accumulation is going on in the stock market; that fears as to a money pinch are proving unfounded. In short, that the next major movement should be forward. Those who are more skeptically inclined will, with equal logic, point out that there are always pauses in all great swings. We have seen several in the liquidating market of the past eleven months and there is nothing to indicate that this is any more than another pause. Indeed, technically, it would be rather surprising if such a decline as we have witnessed should end without more acute weakness. Generally, there is more of a "wind-up" to a large movement.

The feature of moment, industrially, is the refusal of the retailer to mark down prices of goods according to the decline in raw commodities and manufacturers' prices. The public holds aloof from buying and this is not surprising, considering the margin that seems to exist between retail prices and the new level of raw commodities. The reluctance to conform to this new level of prices on the part of retailers is, perhaps, natural, but it must be overcome before the public can be induced again to become large purchasers of goods. We should regard this as the final step, and when it is taken, should expect a large volume of business, as there must be a tremendous amount of purchases piling up. We shall not, however, consider the process complete until this bridge is passed.

Then, even in manufactured articles, there is, we believe, some distance to be travelled before a healthy level has been reached. Steel is generally spoken of as a barometer of general business. This is almost a universal fallacy. As a matter of fact, it is not even a good thermometer. Both up and down, it is generally six to eight months behind other industries. While the prices of the independent companies remain above those of the Steel Corporation, naturally, the latter's forward business will show a small shrinkage, as such purchasers as there are will seek the cheapest market, but as soon as the independents' prices come down to the level of the Corporation, and they are rapidly approaching it, then real competition will set in and the decline in forward business will be much more noticeable.

Then there is the greatest commodity of all—labor. This is a subject that is always gingerly approached, but the fact remains that a liquidation of this has begun and we believe must continue. After it shall have been completed to the necessary degree, the laboring man will find himself, we believe, fully as well, if not better off than before, as his "real wage"—that is, the amount of goods he can purchase in return for service rendered—will have increased.

One thing to be thankful for is that we are slipping by the time without any serious trouble, when a money pinch, if any were to materialize, might be expected. A return to habits of saving—always more generally practised in periods of depression than during prosperous times, plus funds released from liquidation of commodities, should very gradually make for easier rates, though it will be many months yet before there is an actual ease. The only possibility now of any disturbance in this quarter is in the event of renewed liquidation of securities and this, at the worst, will be very temporary.

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No doubt many are looking to the election to mark a turn. Like nearly all other events, it will probably prove to have been discounted. Important as is a national election, we are inclined to think that the tremendous economic factors at work in the world rather transcend it as a market influence.

After all, the safest test as to the cheapness of any stock is whether one would wish to purchase it as a permanent investment. Judged by this test, we cannot yet quite bring ourselves to believe that the time has come to take a strong, constructive attitude as respects most industrial shares.

SOUTHERN PHOSPHATE.—During all the decline in prices of commodities and manufactured goods there has been no recession in phosphate rock quotations. This statement is equally true whether applied to the high-grade rock exported to Europe or the lower-grade 68% rock employed in the United States.

Europe will, undoubtedly curtail its consumption of American raw materials and goods to the greatest possible extent. But it must have our phosphate rock to raise its crops. The total expenditure for this purpose including freights will probably not run over $25,000,000 per annum and this expense spread among so many nations is inconsequential in comparison with the food production which it insures.

In the nine months to September 30, Southern Phosphate shipped a total of 147,329 tons of rock and secured from its sale net profits after all deductions, except taxes, of $312,198, a sum equal to $2.60 per share.

Net profits in the September quarter were $114,665, somewhat less than in the second quarter of 1920, due to delivery of a larger tonnage of rock on old lower-priced contracts and to a temporary increase in mining costs, due to the fact that machinery ordered for removal of the overburden was delayed in delivery. This machinery should be in operation in the final quarter of 1920.

As matters stand today, it seems probable that for all of 1920 Southern Phosphate will show profits of $4 per share, practically all of which would accrue in the period from April 1 to December 31, as the net earnings of the March quarter, representing as they did the period in which initial production was starting, were inconsequential.

Southern Phosphate continues in strong financial position. It has a cash balance of over $500,000 and its net working capital is $750,000, compared with $500,000 on June 30. In addition, the company has paid for over $200,000 of property additions and improvements since the first of the year.

The outlook for 1921 is extremely favorable. The company is completing certain enlargements and improvements at two of its plants which should sharply increase the 1921 output of those two units. This new production should begin to come in during January. It seems reasonable to expect a total 1921 output from the three plants of not less than 350,000 tons and there is a prompt and ready market for every ton of this rock.

Southern Phosphate has experienced in 1920 the minor delays and mishaps which are inherent in a new organization. The present year, broadly speaking, has been a formative period, but it has demonstrated the fundamental strength of the business. The plant improvements which have been made will count in a very substantial way from now forward in economy of production.

The corporation is in such excellent financial position and the promise of increasing profits from now on is so strong that directors would be justified in considering the question of initiating dividends after the turn of the year.

HIGH-PRICED vs. LOW-PRICED RAILROAD AND LIBERTY BONDS.—In our opinion one of the chief probable effects of the Transportation Act and of the increase in rates under that Act will be to improve the status of what have heretofore been regarded as second-grade railroad bonds. Under the Act, rates are fixed for the next two years, so that the roads as a whole are to be enabled to earn 6% on their valuation. This means, in most cases, substantial equities for the capital stock and, therefore, virtually a guarantee for the various classes of bonds. Now, at the moment, the first-grade railroad bonds, such as those of Atchison, Union Pacific, etc., are selling on a yield parity with Liberty Bonds. This is obviously ridiculous because the Libertys, in addition to being a better security, are to some extent non-taxable for larger investors and wholly so for small investors.

Present prices and yields of several representative high-grade railroad bonds compared with various issues of Liberty Bonds are shown below:

	Price	Yield
Atchison, Topeka & Santa Fe Gen. 4's, 1995	77½	5.20
Burlington Gen. 4's, 1958	79½	5.25
Reading Gen. 4's, 1997	84½	4.90
Union Pacific 4's, 1947	81	5.30
Libertys		
2nd 4¼'s, 1927–42	89½	5.05
3rd 4¼'s, 1928	90¾	5.70
4th 4¼'s, 1933–38	89½	5.15
Victory 4¾'s, 1919–23	96¼	6.40

It is, of course, advisable for anyone holding railroad bonds that only yield as much as Libertys to sell and buy Libertys; or to buy into the second-grade of railroad bonds, some of which, owing to the changed conditions of the past few years, we believe will become first-grade.

There are innumerable opportunities now presented for the profitable exchanging of bonds of one road or class into those of other roads and classes. The bonds of some roads are selling at unduly high prices because of prestige formerly acquired and which is not now based on actual performance. Others, because the general public is not familiar with the real facts, are selling much below their proper level.

Some time ago, for instance, we called attention to the fact that Chicago, Burlington & Quincy Joint 4's should be exchanged for the General 4's of the Burlington. The Joint 4's were then selling at 95 and as they are due next July, we pointed out that the utmost possible appreciation in them was limited to 5 points. At the same time, the General 4's were selling at 77, and as we urged, could easily advance 10 to 15 points. They have already sold up 5 points, while the Joint 4's have advanced only 1 point. We believe this exchange would prove profitable even now.

In our opinion the bonds of the Baltimore & Ohio, Rock Island, St. Louis & San Francisco, and St. Louis & South Western are now better secured than several widely held issues which are selling at equal or higher prices.

AMERICAN LOCOMOTIVE.—The equipment companies, because of the character of their customers, are likely to feel much less keenly than almost any other class of industrials the decline in general

business. In fact, it is becoming steadily more evident that equipment company shares as a group and locomotive company stocks in particular, may be classified as semi-railroad securities.

The equipment producers are mainly dependent on railroad credit for a market for their securities. Railroad equipment buying had been sub-normal for some years prior to the war. It continued subnormal up to the time the Government took over the roads. And since the armistice equipment buying has naturally been retarded because the Government railroad administration anticipating the return of the roads to private operation hesitated to make fresh equipment commitments and the roads themselves lacked either credit or authority or both.

The restoration of railroad credit should mean more to the equipment companies than to any single industrial group not excepting the steel companies.

The railroad bond market has been steadily improving since June and the railroad share market has been conspicuous for its sustained advance during the long down-swing in industrial shares. It is undoubtedly recognition of the fact that a free period of railroad financing would mean sustained prosperity for both car and locomotive builders which account in part for the great steadiness of such stocks as American Car & Foundry and American Locomotive during the decline in the general industrial list.

The American Locomotive Company is doing a very satisfactory volume of business and in the fiscal year to December 31, 1920, should show for its $25,000,000 common stock a balance of net profits equal to several times the 6% dividend.

While the six months period ending June 30 showed $7.60 per share on the common stock on a business of $21,769,679 for that period, shipments for the past three months have been running at the rate of over $60,000,000 per annum and the final quarter of 1920 it is expected, will at least maintain the rate of the third quarter and probably exceed it.

The corporation had but $7,862,157 of unfilled orders on hand on December 31, 1919, and it required the first three or four months of 1920 to build them up. This was done with the result that on June 30 last unfilled orders aggregated $44,073,632. This was a year's business computed at the rate of production established in the first half year and was six or seven months' business at a 75% of theoretical capacity rate.

Despite the sharp acceleration of production attained in the September quarter, American Locomotive still has over $41,000,000 of unfinished business and is practically certain to go into 1920 with heavy unfilled orders. The first half of 1921 should, therefore, be radically better than the first half of this year.

There is a feature to the locomotive business which is not generally appreciated. A typical argument against many industrials is that they are "inventory" stocks. American Locomotive is emphatically not an inventory stock. In fact, broadly speaking, it has no inventory situation to consider.

The reason is perfectly obvious. It does not produce a standardized staple. It does manufacture a complicated specialty. No two locomotive orders are alike. Engines vary in the many details of specifications from one road to another and from one year to another. They are not built ahead and sold from stock but only on contract and according to the specifications outlined in each particular contract.

Consequently, American Locomotive, while it naturally owns raw materials and parts, has sold these inventory items on the basis of contracts with railroads for complete locomotives. The instances where a railroad has refused to live up to its contract and accept delivery of a finished locomotive are so rare as to be practically negligible. In other words, considering its contracts and the high moral risk of the railroads, an equipment company like American Locomotive has no inventory write-offs which it need consider.

American Locomotive continues in splendid financial position. It is borrowing no money and has been quietly increasing its balance of net quick assets out of surplus undivided earnings. The items making up current assets have naturally shifted somewhat as the volume of gross sales has been steadily increasing. In other words, some of the idle assets temporarily invested in Liberty bonds or certificates of indebtedness have been transferred into accounts receivable or materials.

WESTERN UNION.—In keeping with other high-grade investment issues, the shares of the Western Union Telegraph Company have recently enjoyed a moderate advance. Even now, however, they are quoted at a level which yields 8%, although current earnings and prospects would seem to warrant much higher prices as money conditions improve.

During the first nine months of 1920, the company reports a net income, after interest and taxes, of $10,198,000, or the equivalent of $10.22 a share. This is at the annual rate of $13.62 a share, and compares with earnings of $13.11 in 1919; $11.64 in 1918 and $14.40 in 1917. There was a slight drop in the net of the third quarter, as against that of the first two quarters. For instance, in the first six months' period, share profits were $6.97, or $3.48 a quarter, while in the third quarter they amount to $3.24. This almost insignificant decline can be attributed to an increase in the charges for depreciation and repairs from an average in the first two quarterly periods of the year of $3,940,000 to $4,331,000 in the third.

The growth of the Western Union business in the past five years has been nothing short of phenomenal. From 1910 to 1915, gross advanced from only $32,754,000 to $51,171,000. At the present time, however, gross is averaging better than $10,000,000 a month, or at the annual rate of more than $120,000,000. Of course, some of this increase is due to higher rates, which were put into effect while the property was under Government control in 1919, and which have since been continued. The let-up in general business this year apparently has had no adverse effect upon the company's revenue. The month of August was the

biggest month on record, with gross of over $10,400,000. The Western Union business, therefore, appears to have the same degree of stability that has always characterized the Bell Telephone system.

Furthermore, the company's financial structure is another feature of strength. Earnings have increased pretty nearly three-fold from 1913 to date, without the issuance of a dollar of new capital. The total funded debt at present consists of $31,994,000 of bonds, none of which mature in less than fourteen years; while the outstanding stock amounts to $99,786,727, par $100, all of one class.

RAILROAD CAPITALIZATION vs. VALUATION.—The Transportation Act of 1920, with its provision that all earnings over 6% on the property valuation of the individual roads must be shared equally with the Government, confers upon this matter of valuation an importance that it never had before. In its report to Congress in connection with railroad legislation last winter the Interstate Commerce Commission submitted figures representing the book property investment of the separate companies as of December 31, 1918. It was these valuations which were used as a basis for determining the rate advances recently granted.

In the following table we have compared the present outstanding capitalization of some of the leading railroads of the country with the Commission's valuation for 1918:

Road	Total Stock and Bonds at Par	Valuation Dec. 31, 1918
Atchison	$632,600,000	$732,988,000
Atlantic Coast Line	216,600,000	189,017,000
Baltimore & Ohio	668,900,000	633,382,000
Boston & Maine	187,800,000	211,568,000
Chesapeake & Ohio	243,500,000	263,916,000
Chicago & Alton	125,000,000	123,648,000
Chicago Great Western	127,100,000	70,000,000
St. Paul	609,400,000	609,444,000
Chicago North Western	394,100,000	406,275,000
Rock Island	347,300,000	337,810,000
C., C., C., & St. Louis	169,600,000	196,967,000
Delaware & Husdon	117,600,000	110,123,000
Erie	485,900,000	431,569,000
Great Northern	392,400,000	464,408,000
Illinois Central	389,200,000	345,336,000
Kansas City Southern	99,700,000	83,030,000
Lehigh Valley	157,300,000	217,948,000
Lousiville & Nashville	248,000,000	297,386,000
Missouri Pacific	379,700,000	335,974,000
New York Central	986,700,000	983,002,000
New York, Chicago & St. Louis	67,700,000	73,976,000
New Haven	422,500,000	308,499,000*
New York, Ontario & Western	87,400,000	91,051,000
Norfok & Western	254,400,000	289,247,000
Northern Pacific	456,600,000	498,674,000
Pennsylvania	881,800,000	1,037,193,000
Pere Marquette	105,000,000	102,185,000
Seaboard	189,100,000	183,950,000
St. Louis-San Francisco	328,400,000	350,992,000
St. Louis Southwestern	90,400,000	103,111,000
Southern Pacific	825,200,000	956,537,000
Southern Railway	425,400,000	489,000,000
Union Pacific	686,000,000	607,373,000
Western Pacific	98,000,000	90,213,000
Wabash	202,500,000	207,973,000
Western Maryland	136,600,000	137,729,000
Wheeling & Lake Erie	76,500,000	77,625,000

*Subsequent report places valuation as high as $412,140,000.

Undoubtedly, actual present replacement value of these properties is very much in excess of the above figures. Furthermore, the ruling of the Supreme Court in the Kansas City Southern case should add materially to land valuations.

Of course, the figures for property investment do not include ownership of securities in other railroads. Such roads as the Atlantic Coast Line, Baltimore & Ohio, New York Central, Pennsylvania, and Union Pacific all have large holdings in other companies from which they derive a considerable income. It does not, therefore, necessarily follow that an excess of capitalization over valuation indicates weakness. On the other hand, as a general rule, it would seem safe to say that a valuation much larger than the outstanding capitalization is a factor of such strength as to make the continuance of stock dividends now being paid a certainty, and the inauguration of dividends where none are now being paid a distinct possibility.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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WEEKLY MARKET LETTER

Buy and Sell Stocks
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25 BROAD ST., NEW YORK **HAYDEN, STONE & CO.** 87 MILK ST., BOSTON

Branch Offices: SPRINGFIELD, MASS., PORTLAND, ME.

No. 881 October 29, 1920

THE GENERAL MARKET.—Until the latter part of the week stocks showed resistance to a good deal of unfavorable news, but have finally given way to what seems a renewal of liquidation. Superficially, this may be attributed to the changing aspect of the political campaign. We are inclined to think that the cause lies deeper. Not only do the industries which have been the hardest hit show no improvement, but those whose business has been fairly good are beginning to experience liquidation. Coke, for instance, which has been selling for about nine times its normal price has dropped $5 per ton in the last eight days. Some have made the point that the steel production of the world is less than the pre-war output. We are not prepared to confirm this statement, but assuming it to be so, there are many factors to modify it. For instance, Germany, no doubt, immediately before the war, was straining every nerve to produce and import all the steel that it could, just as it was in the matter of copper. The domestic situation is, briefly, as follows: Our largest pre-war production of steel was a little over 30,000,000 tons in 1912 and 1913. Today the steel-making capacity of this country is over 50,000,000 tons and it has recently been running at 43,000,000. This is, undoubtedly, in excess of our normal domestic demand.

This brings up the question of foreign demand. All during the war, and for the past year, our prosperity has been due in large part to Europe's demand for our goods. This prop is disappearing. In the first eight months of this year, our balance of foreign trade was 46% under that of last year. For our own domestic demand there is now, unquestionably, an over-supply, or at least an over-capacity.

It is important to distinguish clearly between the two. As a matter of fact, the supply, by reason of curtailed production, is undoubtedly being rapidly cut down. The psychology of public buying is an interesting study. A year ago nothing was too high to buy; today nothing is low enough. The minute that the public is satisfied that the low point has been reached we are likely to see another wave of buying that may actually lead to a shortage of goods. The ability of the public, however, to hold off until it is satisfied that the low point has been reached is extraordinary. Some articles, as we have pointed out, are already down to a pre-war level. Others, however, are not and must come down very decidedly before finding a healthy market. Without a far more radical liquidation of labor than anyone would dare to predict, or would be likely to see without serious social disturbance, costs cannot come down to a pre-war level and it is certain that goods will not be produced indefinitely below cost.

A very interesting feature is beginning to come to light in the railroad situation. Naturally, even these companies are not immune from the let-down in business and the traffic offered them has been showing an appreciable decrease, so that their gross earnings under the first few months of the new rate law will not, in most instances, probably come up to the early estimates. Yet in spite of this, it seems likely that their net earnings will nearly, if not quite, come up to what it was estimated they would earn after division with the Government. This is because, in a large majority of cases, it was estimated they would earn well in excess of the 6% return on their valuation. In other words, it is the Government that will bear the brunt of the first shrinkage in earnings.

The terms of the British coal strike settlement are not at the moment of writing fully disclosed, but there is no doubt that there have been important concessions. It would, we believe, have led to a far healthier situation if the question could have been fought out to its natural conclusion.

Such a severe liquidation of commodities as has been seen in the last eight months might have led to really serious disaster if we had been operating under the old banking system. As it is, with the tremendous mobilization of credits, there is no danger of this, but in view of the constantly increasing bank loans and note issues in the face of a serious attempt at deflation, it is quite evident that it is going to take, even at the best, some time longer to straighten out the situation.

Even admitting the tendency of the market to discount coming events, we cannot, as yet, quite believe that there is any great hurry to increase commitments.

RAILROADS AND THE NEW RATES.—It is highly significant that so far as State Railroad or Public Service Commissions have acted upon the new rates ordered by the Interstate Commerce Commission, comparatively little dissent has been expressed as to freight rates.

In the cases in which State regulatory bodies have made decisions the findings of the Commissions where they have been adverse, have been very largely so in respect to the 20% increase in passenger rates. Or to express the situation with greater precision, the Commissions where they have objected to applying the new rates to the intra-state business to which their rate making power is exclusively confined have refused assent almost entirely in passenger rates and with a few exceptions have confirmed a 25, 30, 35 or 40% increase in freight rates as applied to intra-state traffic.

There are, of course, a number of State Commissions, which have not acted as yet in making rulings

in their jurisdictions. The Commissions of several of the States have approved the Interstate Commerce rates in full as applied to intra-state traffic. The Massachusetts, Rhode Island and Connecticut Commissions acted promptly and approved the rates in full. New Jersey and Pennsylvania as well as Maryland, Virginia, Georgia and Tennessee have also given full approval to the new rates on intra-state traffic in their territory. California has acted favorably.

There are today eight States whose Commissions have refused consent to the railroads to apply the new rates on intra-state business and in which appeals have been taken by the railroads to the Interstate Commerce Commission.

These eight States are Missouri, Florida, North Carolina, Arkansas, Ohio, Nebraska, New York and Illinois.

In only two of these States does the disapproval of freight rates affect any large volume of intra-state freight traffic. In Missouri the Commission refused to apply the new rates on coal, coke, oil and various building materials. This is a considerable portion of freight traffic and is the only serious dissent so far raised.

New York was quick to grant the 40% increase on intra-state freight, but refused any increase in passenger fares on the ground that a specific State law enjoined higher rates. Illinois acted on the same ground and objects solely to the 20% passenger increase. Virtually the entire disapproval of the Commissions of these eight States is confined to the 20% increase in passenger fares.

There is this point to remember. Taking the railroad gross of the country as a whole, 80% is freight and 20% is passenger revenue. Furthermore, only approximately 15% of all freight traffic is intra-state, while 40% of all passenger revenue is intra-state.

If all the State Commissions were to refuse the 20% increase in intra-state rates it would make a difference of but 8% in the total gross revenues of all the railroads.

Practically speaking, therefore, the only holdback in making universal the scope of the new rates affects a fraction of total railroad gross. Probably not over 3% is actually affected so far.

A number of State bodies have yet to act. Opposition has been slight in the south, but has been largely confined to the southwest and middle west. States like Texas and Oklahoma have not yet outgrown their railroad antipathy. Texas, however, has been poor railroad territory for years and all of the big systems running through that State have felt the burden of poor earnings obtained by the subsidiaries they were obliged to incorporate under Texas laws.

The new law gave the Interstate Commerce Commission rather broad powers to override the rulings of any State commission where it was felt by the National Commission that such intra-state rates as were set up by local authorities, were prejudicial to interstate commerce or preferential as between persons and localities.

The eight test cases carried to the Interstate Commerce Commission are appealed under the terms of this specific reservation of power to the National Commission, which apparently has the final decision and without right of appeal by the State Commission. In short, in a case of this kind the Interstate Commerce Commission becomes a kind of supreme court and its decision is binding and may override any State laws to the contrary.

It will be highly interesting to see how these eight cases develop. The power reposed in the Commerce Commission if fully employed is tantamount to Federal incorporation of railroads so far as rate making is concerned.

The Commerce Commission is not likely to be arbitrary or hasty in deciding these eight cases. It is more apt to adopt a "soft voice" policy, referring the questions at stake back to the State Commissions with the hope that upon more mature deliberation they can discover a way to fall in line with other States and with interstate rates and not oblige the Commission to exercise its full authority. Should any State finally prove recalcitrant the Commission could either override its rulings or increase interstate rates by an amount sufficient to take up the slack resulting from lower intra-state rates.

This provision of the new railroad act is really extraordinary in the possible breadth of its application. It has levelled the chief railroad confusion arising from our Federal form of government. In its evolution it seems destined to achieve the chief desideration of Federal incorporation of railroads—namely, concentration of authority in a strong national commission.

COMPARATIVE BOND PRICES.—Because prices of railroad bonds have advanced quite substantially in the last three months, many persons seem to think that this class of bonds has passed out of the bargain level, and that there is little room for further advances. A comparison of present prices, however, with prices prevailing before the war, should quickly dispel this idea.

Railroad bonds have advanced in the last three months for two reasons:

First, because the rate increase has asssured them of greatly increased earnings under normal business conditions; and, second, because of the expectation that money rates will be much lower next year than they are now. But the present prices of the prime railroad bonds are up only 5 or 6 points from the prices prevailing on July 1, 1920, and they are still down about 20 points from the high prices of the last 10 years. In the lower grade bonds, advances have been more pronounced, when figured either absolutely or relatively. The reason for this is obvious enough. Before the passage of the Transportation Act, and the big increase in rates under that Act, the lower grade bonds naturally seemed doubtful enough as to security, because of the abnormal operating expenses of the railroads. Now, as a result of the Transportation Act, under which, most railroad stocks are fairly well assured of a certain equity in earnings, the lower grade bonds appear to be virtually guaranteed. But, even in this group, prices today are still 20 to 50 points lower

than the highs of the last 10 years; the range depending, of course, to some extent, upon the altered status of some of these roads as compared with their position eight or ten years ago.

The following table compares the high prices of 20 bonds, showing the highest price reached in the last 10 years, the price on July 1 of this year, the present price, and the present yield:

Ten Prime Bonds

Road	Maturity	High Price in Last 10 Years	Price on July 1st, 1920	Present Price	Present Yield
Atchison General 4s	1995	101	71	77	5.20
Central Pacific 1st Ref. 4s	1949	98	68	74*	5.90
Chesapeake & Ohio Cons. 5s	1939	114	88	93	5.70
C., B. & Q. General 4s	1958	100	71	81	5.20
Louisville & Nashville Unif. 4s	1940	100	75	83	5.40
Northern Pacific P. L. 4s	1997	102	70	78	5.20
Pennsylvania Cons. 4s	1943	106	77	81	5.40
Southern Pacific Ref. 4s	1955	96	70	76	5.50
Union Pacific 4s	1947	102	77	81	5.30

Ten Lower Bonds

Baltimore & Ohio Conv. 4½s	1933	98	59	74	7.10
Chesapeake & Ohio 4½s	1930	97	70	77	7.85
Chicago, Rock Island & Pacific Ref. 4s	1934	92	64	69	7.65
Denver & Rio Grande 1st 4s	1936	97	59	67	7.60
Erie Prior Lien 4s	1996	90	47	59	7.30
Missouri, Kansas & Texas 1st 4s	1990	100	53	62	7.15
Missouri Pacific 4s	1975	68*	52	59	7.40
St. Louis-South Western 4s	1989	93	64	70	6.00
St. Louis & San Francisco 4s	1950	71*	52	62	7.05
Southern Railway 4s	1956	81	55	63	6.95

*Outstanding less than 5 years, and so high price was not as high as it might have been if bonds had had benefit of better bond market of earlier years.

In the list of prime railroad bonds, it will be noted that Central Pacific First Refunding 4s of 1949 are selling at the lowest price of any of the ten. This we understand is due to the fact that there has been quite heavy selling of this bond from European holders who have been taking advantage of the big discount on exchanges. On its merits, the Central Pacific bond is entitled to sell on practically the same basis as the others.

In the bonds included in the group of ten lower grade, there are several interesting features. The Baltimore & Ohio 4½% Convertible Bond of 1933 is selling on a comparatively low-yield basis, partly, we believe, because of its conversion possibilities and, partly, because of the greatly improved position of the Baltimore & Ohio Railroad Company as a result of the rate advance. The Chesapeake & Ohio 4½% Bond of 1930, we believe is selling too low, because it is fairly well secured, and will be covered by a remarkably large earning power under the new railroad rates. The price of the Denver & Rio Grande First 4s of 1936 is, apparently, affected adversely by the unfortunate position of the stockholders in their relations with the Western Pacific; but this, of course, is a matter that concerns the stockholders and not the bondholders. The Missouri, Kansas & Texas First 4s are selling below their proper level, because of the receivership, which, of course, will not disturb this bond. It is understood that the holders of this bond will be offered a 5% open mortgage bond in place of their present holdings, but, of course, an acceptance of this is optional with them. St. Louis & Southwestern 4s of 1989 we believe are likely to become prime bonds in the next several years. The St. Louis & San Francisco Prior Lien 4s of 1950 are also selling too low, as compared with other bonds not so well secured nor covered so well by earnings.

THE ELECTRIC COMPANIES.—The sales of the electrical companies as measured by the volume of incoming orders received by General Electric and Westinghouse Electric are holding at the record figures established in the first half of 1920.

For the past six months these two great manufacturing organizations have been booking new orders at an annual rate of $550,000,000. In their last fiscal years, which for General Electric ended December 31, 1919, and for Westinghouse Electric on March 31, 1920, these two corporations shipped out to customers a total of $366,032,075 of finished apparatus.

The volume of incoming orders of $550,000,000 is $184,000,000 more than orders shipped in the late fiscal year, an increase of approximately 50%. Furthermore, the incoming orders have been at a rate of $100,000,000, or 20% in excess of the maximum productive capacity of the plant system. This is, of course, an arbitrary statement. Both companies make several thousand different types of apparatus. The flow of inward business is obviously not evenly distributed throughout the different lines of products. At the same time it is broadly true that the chief effort of both companies this year has been to produce goods rather than to secure orders. Both companies have five to seven months of unfilled orders in hand.

It is perhaps a little puzzling that in times of industrial depression like the present the electrical industry should be establishing such records. The general explanation is that the selling vacuum which existed at the close of the war has not yet been filled. And it is considered that the need of electrical goods is still so great that in all probability the electrical companies will bridge over the period to the next revival in general business without any marked or sustained recession in their sales.

It is a mistake to suppose, as many do, that the electrical industry swings with the tide of industrial prosperity. The users of electrical goods are not confined to industrial concerns. The public utility companies as represented by light and power concerns have been radically undeveloped for five years. Statistics show that the use of electric energy doubles every five years in the United States. During the past five years Central station growth has been decidedly subnormal. It is safe to say that the capacity to create electric power and light in the United States as a whole is 40 to 50% below what it would have been had there been no war.

The remarkable thing about the electrical companies is that they have been able to increase their production so rapidly in the last five or six years and have added so little to their fixed capital. This is illustrated by the following comparison, showing the gross business and fixed capital of the two companies at the end of their 1914 fiscal year and the same figures for 1920 (estimated). The figures follow:

	1920	1914	Inc.	% Inc.
Gross	$450,000,000	$124,138,000	$326,000,000	262%
Fixed capital	228,697,000	177,991,000	50,706,000	27%

The moral of these figures is, of course, that if the electrical business is to continue at the present rate it should logically create additional forms of fixed capital. The outlook for continued big business is so strong that it is not unlikely that both companies will shortly move decisively in this direction. Both companies are naturally borrowing considerable money, which financing would convert into fixed capital. It is self evident that an increase in gross sales since 1914 of 262% could have been handled with an increase of but 28% in fixed capital only by wise utilization of surplus profits above dividends and by creation of some floating debt.

THE STEEL COMPANIES.—Judging from the reports of three of the leading steel companies which have issued their statements for the first nine months of the year, 1920 is likely to prove the most prosperous year, with the exception of the war period, that the steel industry has ever enjoyed. It is rather remarkable, too, that in spite of the industrial recession which set in last spring, the earnings reached their peak in the third quarter. It is ordinarily several months after the turn in the industrial tide before it is reflected in the steel trade and this condition has been accentuated this year, largely because of the interference in production and deliveries resulting from the steel and coal strikes last fall and the outlaw rail strikes of the spring.

It is interesting to compare the share earnings and the unfilled orders of these three companies, United States Steel, Lackawanna, and Republic, during the first three quarters of 1920:

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		9 Months	1919
	Earned for Com. Stock	Unfilled Tonnage	Earned for Com. Stock	Unfilled Tonnage	Earned for Com. Stock	Unfilled Tonnage	Earned for Com. Stock	Earned for Com. Stock
U. S. Steel	$3.88	9,892,075	$3.96	10,978,817	$4.76	10,374,804	$12.61	$10.14
Lackawanna	—	492,519	5.36	484,267	9.36	277,482	13.42	1.02
Republic	4.46	512,451	6.22	491,585	9.56	333,889	20.24	1.43

The Steel Corporation's earnings and orders have exhibited much greater stability. This has probably been due to the fact that the company made no advance in its prices during the steel shortage of some months ago, while the independents were asking and receiving large premiums. The September quarter was the best "peace" quarter that the Corporation has ever had, and 1920 should be the best year on record, with the exception of 1916, 1917 and 1918. The nine months' earnings for the common stock amounted to $12.61, and even allowing for a possible recession in the final quarter, the full year ought to show $15 to $16 a share. This would compare with $10.14 in 1919.

Lackawanna and Republic both report very large earnings in the third quarter, at the annual rate of $37 to $38 a share. But, in the first quarter, Lackawanna showed a deficit and Republic a surplus of only $4.46. For the nine months the former company earned $13.42, and the latter $20.24 per share, as compared with $1.02 and $1.43 per share respectively, in the entire 1919 year. However, the independents apparently cleaned up a good part of their high-priced orders during the summer months, receiving the maximum benefit in earnings. Unfilled orders on hand as of September 30, showed a reduction from those of three months previous of 36% in the case of Lackawanna, and 32% in the case of Republic Iron & Steel. With the disappearance of premiums on steel products and the prospect of active competition for business, it is possible that the profits of the smaller companies will be much reduced in the last quarter.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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THE GENERAL MARKET.—The banking situation showed some improvement last week, but is still very much strained. It can be relieved only by the gradual liquidation of commodities. There would be nothing gained by any general calling of loans; that would produce only worse confusion. It will be far better to let manufacturers and merchants trained in their respective lines work the process out gradually. This is, undoubtedly, what will be done, and let it be remembered that when it is accomplished it will take but a fraction of the present volume of credit to carry on business at the new prices. This means that much of the capital supporting the present credit structure will be relieved, and when this capital seeks employment, rates will gradually fall. It will take, however, months to work this out.

There are two steps in such a readjustment process as we are now passing through. The first is the uncontrollable accumulation of inventories. It is impossible to stop the manufacture of goods as rapidly as business falls away, and especially with the reprehensible practice of cancellation that has grown up in this country, manufactured and partially manufactured goods are bound, for a time, to accumulate. We have undoubtedly reached the climax of this first process. The next step is the liquidation of inventories. On this we are now just entering. This is, necessarily, slow and rather a painful affair, yet bound to be worked out in time. The perpendicular drop in the price of grains and cotton has not only reduced the buying power of the agricultural sections, but even more has reduced their desire to buy. There is just one thing that will restore, not only the buying power, but the wish to buy, and that is a lowering in price that will restore the balance between the reduced income of producers, particularly in the agricultural sections, and the cost of goods offered to them.

Already a number of raw commodities are down actually, or close to pre-war prices. It takes time for this reduction to find its way through the various processes to the ultimate consumer, but it is practically certain to come.

The one thing that stands in the way is the high labor cost, and as it is gradually appreciated that full operations, at lower wages, are to be preferred to theoretically high wages, on very short time, this obstacle will gradually be overcome, especially as it is further realized that the lowering in the wage rate will not mean any real loss in labor's purchasing power.

Meantime, what of the railroads? These found it necessary to spend large sums for maintenance and up-building of properties, which had been somewhat run down under Federal control, and with the sudden letting down of traffic, they have not been able at once to realize the earnings anticipated on the increased rates. Gradually, however, it will be possible to reduce these excessive costs and, meantime, with fewer employees they are getting far better service. The saving in wages alone will amount, in several cases, to a considerable percentage on their shares.

The fact remains that the railroads are the only class of corporation whose product—transportation—has been increased from 25 to 40%, and rightfully so, and which will, at the same time, benefit as much as any other class from increased efficiency. We maintain that though there may be a few exceptions, the chief troubles of the railroads are behind them.

Marketwise, we cannot but believe that the worst has been registered. We say this with a full appreciation of the fact that there may be a few conspicuous exceptions. At a time like the present, the best criterion is the experience gained in similar periods in the past. That most closely resembling the present was the readjustment necessitated by the outbreak of the war. It was just six years ago that the country was being faced by similar problems; we were being urged to buy a bale of cotton, and it was difficult to see daylight ahead. Yet within three months after that we were enjoying a bull market.

We realize that some of the most important factors, of which the most conspicuous was Europe's urgent need of our goods, will be lacking in this case, yet other sections of the world will wish them and there has been a far more severe cessation of production than there was then and a larger internal void to be filled.

INTERNATIONAL CEMENT CORPORATION.—In its half year to June 30, it may be recalled that International Cement Corporation showed a consistent monthly expansion in net profits, with the result that the balance after deduction of all expenses, including interest and taxes, amounted to $772,930, a sum equivalent to $2.88 per share on the 268,396 shares of stock outstanding.

Earnings of the September quarter have accentuated the satisfactory record of the first half year. The net to surplus for the three months to September 30 was $654,102, an increase of $106,512, or approximately 20% over the balance for dividends of $547,590 earned in the June quarter. Furthermore, these profits were equal to $2.44 per share on the stock, only a little less than was earned in the entire first

six months. Or stated in terms of the $2.50 dividend now being paid International Cement in its September quarter earned nearly the full year's dividend at the present rate.

In the first nine months of 1920 the corporation accumulated a dividend balance of $1,427,039, equal to $5.31 per share or over two times the $2.50 annual dividend.

The following condensed income account for the first three quarters of 1920 is of interest and demonstrates how progressive has been the development of earning power. The figures follow:

	Sept. Quarter	June Quarter	March Quarter	Total 9 Months
Total net	$902,865	$676,462	$292,106	$1,871,434
Interest and taxes	248,764	128,872	66,760	444,396
Balance for dividends	654,102	547,590	225,346	1,427,038

In its March quarter International Cement earned at the rate of $3.44 per share, in the June quarter at the rate of $8.36 and in the September quarter the rate was $9.76 per share.

At the time the stock was placed on a dividend basis it was estimated that 1920 profits would produce a balance of $7 per share. The company will need to earn but a bit over $1.75 per share in the December quarter to verify this expectation or approximately one-half of the share profits of the preceding three months. There is hardly a question that earnings will do considerably better than this. In fact, after making conservative estimates for November and December results, it seems entirely rational to expect that the full 12 months to December 31 will show net of over $8 per share on the stock.

In a period of general business depression in the United States it is, perhaps, inevitable that International Cement will be somewhat affected. Its earnings this year, however, have not been due to excessive selling prices for cement. It has been quantity production plus operating efficiency which has largely contributed to the excellent showing. In fact, had International Cement desired to exploit its trade opportunity by higher selling prices it could easily have added several hundred thousand dollars to net profits.

Cuban earnings will temporarily feel the disturbed conditions in that Island, but the company is still doing a fair business, which should quickly revive the minute the sugar situation has stabilized.

The doubling of the Houston, Texas, plant which was completed in July has already increased output of the Texas Company very substantially. It has also lowered manufacturing costs so that the Texas property is well fortified to meet a possible temporary slackening in demand, which has not as yet, however, made its appearance.

International Cement is in excellent financial position, with a September 30 balance of net quick assets of about $1,100,000, or over $4 per share for the stock. During 1920 the Company has spent the greater part of its earnings in bringing its plants up the highest state of efficiency. This program has now been completed and in 1921 practically all of the earnings will go to increase the working balance.

RAILROAD EARNINGS, EXPENSES AND ECONOMIES.—Railroad operating officials are not nearly so much disappointed with the showing of the railroads under the new rates as is the general public. The officials in close touch with conditions know that special factors have militated against earnings in the past two or three months, and that later when anything like normalcy in railroading and in traffic is restored the new rates should prove very satisfactory.

For it is a fact that almost simultaneously with the inauguration of the new rates the railroads began to lose heavily in shipments of the miscellaneous freight which is most profitable, although they still continued to carry in large volume the basic commodities, such as coal and the crops on which carrying profits are small. That is one reason why earnings were not as large as might theoretically be shown on the increased rates.

A second reason is that expenses were not immediately reduced in proportion to the falling off in traffic. Many of the railroads had months ago begun extensive programs of additions, betterments, and increased maintenance, which once started had to be pushed through to completion. As a result some roads had until the last ten days or so the largest number of men ever carried on their payrolls.

But drastic reductions in expenses may be expected from now on. It appears that the number of employees is being, or will be, cut quite generally by about 15%. We have two cases in mind of prominent roads, one of which is laying off 8,000 and the other 15,000 men, where the saving in payroll alone is equal to an annual rate of $10 a share on the common stocks. Furthermore, it is stated that the greater efficiency of the remaining employees practically offsets the reduction in forces.

In addition to the big economies possible through the better labor situation, the railroads as a whole have apparently a wide margin of maintenance expenditures through which they can either offset diminished revenues, or greatly increase the surplus for their stocks when traffic becomes normal.

In 1917 the railroads of the country spent on the average about 27½% of gross earnings on maintenance. In 1919 this had been increased to about 39%. Part of this increase was due, of course, to higher costs for material and labor. But whereas the increase in the maintenance ratio had in these two years jumped almost 12 points, the increase in transportation costs, which are largely made up of the same factors, increased only about four points.

As a whole, it is probably safe to say that maintenance charges were extra liberal. If the same increase had been made as in transportation costs, maintenance would have consumed about 31½% of gross and if,

therefore, 35% be allowed, it would seem to be ample. This same ratio should do for 1920 as well, because any increase in costs were probably offset by the higher rates.

In studying current reports of earnings it is essential that this item of maintenance be carefully considered. For instance, in the case of two roads whose stocks are often compared, Erie and Southern Railway, it would hardly do to infer that Erie, which is spending 50 cents of every dollar of revenue on maintenance, was making a miserable comparative showing with Southern Railway, which is only spending 33 cents.

For the purpose of showing how wide is the disparity of maintenance charges, we have prepared the following table, presenting the record of 18 representative roads. In the first two columns are shown the gross earnings and maintenance charges in millions of dollars for the first 10 months of 1920. In the last three columns are shown the actual per cent. of gross thus spent, the amount in millions which such expenditure over or under 35% of gross consumed, and how much that amounted to when applied per share of stock:

	Gross Revenue 10 months 1920 (In millions)	Maintenance 10 months (In millions)	Per Cent. to Gross	Excess over 35 Per Cent. (in millions)	Amt. of Excess Per Share of Stock
Atchison	$176.5	$76.6	43.4%	$14.8	$6.60
Baltimore & Ohio	187.5	83.7	44.6	18.0	11.10
St. Paul	138.7	59.9	43.1	11.1	9.40
Chesapeake & Ohio	73.0	30.7	42.0	5.1	8.20
Chicago & Northwestern	136.9	55.5	40.5	7.5	5.10
Rock Island	112.6	50.1	44.4	10.1	12.10
Erie	87.6	43.5	50.0	13.0	11.60
Great Northern	102.0	43.9	43.1	8.2	3.20
Missouri-Pacific	95.6	45.7	47.8	12.2	14.00
New York Central	302.2	126.6	41.4	19.3	7.70
New Haven	103.1	41.9	40.7	5.8	3.70
Northern Pacific	91.6	37.3	40.7	5.2	2.00
Pennsylvania	456.1	225.3	49.5	66.1	6.60
Pere Marquette	33.8	12.7	37.5	.8	1.80
St. Louis-San Francisco	76.9	31.6	41.0	4.6	9.20
Southern Pacific	166.4	59.1	35.5	.8	.30
Southern Railway	126.6	41.7	33.0	*2.5	*2.00
Union Pacific	108.2	37.9	35.1	.1	.40

*Deduct.

It, of course, must be explained that the table is mainly of value for comparative purposes. The actual expenditures were doubtless in all cases necessary and beneficial. It should not be inferred that all of the roads, even if they could really have saved the excess maintenance, would be able to show anything like the earnings per share indicated in the last column; for in some instances fixed charges were not being earned and the excess maintenance would in these cases have been applied against bond interest and rentals, rather than as surplus for the shares.

But the main point is that these high maintenance expenditures will not have to be continued indefinitely, and when the reduction comes the roads will be able in this respect to modify their earnings statements roughly along the lines indicated by the foregoing table.

AMERICAN TELEPHONE & TELEGRAPH.—The American Telephone earnings for the first nine months of the current fiscal period maintained pretty well the high level established earlier in the year. Net revenue, after all charges and taxes, amounted to $39,158,721, equivalent to $8.85 per share for the $442,000,000 of capital stock outstanding. This is at the annual rate of $11.80 per share, as compared with an annual rate of $11.91 per share reported during the first six months of 1920. Year after year the American Telephone Company's earnings have been almost stationary in the vicinity of $10 a share for the stock, so that this year gives every indication of setting up a new high record.

Some months ago pessimism concerning the future of the Telephone Company seemed to be rather general, and predictions were made that the 8% dividend was not very well secured. The earnings so far this year, providing a margin of nearly 50% over and above dividend requirements, would appear to be the best answer to such rumors.

Of course, the reports of the American Telephone & Telegraph Company include merely the net profits of the long distance toll lines and the interest and dividends received on the subsidiaries' securities held in the treasury. Including the company's equity in the earnings of the Bell System, there has always been a much larger margin of earnings than was shown in the American Telephone & Telegraph annual report. While no complete figures for the Bell System are available, it is interesting to note that in the case of several of the subsidiariary companies, this year's net revenue has been running much in excess of that of 1919.

NEW YORK CENTRAL.—During the war the New York Central was able to make a fairly satisfactory record on its own operations. In each of the three years immediately preceding the taking over of the railroads by the Government, it had reported more than 10% earned for its stock, and in 1916 over 18%. The federal guarantee was equivalent to about 9%, while on actual operations in 1918 the company earned 5.75% and in 1919, 6.06%. The New York Central, therefore, is one of the very few roads that really earned their dividend requirements, the stock having been on a 5% basis since 1910.

During the first eight months of this year actual operations showed a loss, owing chiefly to a great increase in maintenance charges. Beginning with September the Government guarantee expired and at about the same time the higher freight and passenger rates went into effect.

In the two following months the statements for which have so far been issued, the New York Central made a fairly good showing. Gross increased 30%, as compared with last year, while net was just about the same as in 1919. In September net operating income amounted to $4,748,357, and in October to $5,562,022. These two months usually produce about 21% of the annual net revenue, so that it is possible to figure that earnings were running at the yearly rate of about $50,000,000. Making the same allowances for other income and charges as were made in 1919, the balance for the stock, on this basis, may be estimated at about 6%.

During September and October maintenance charges consumed about 35% of gross, which is generally regarded as the proper proportion. But in the ten months to October 31, 1920, they consumed 42% of gross. Owing to the increase in gross the percentage is, of course, smaller in the last two months, although in actual figures upkeep expenditures are still at the maximum. For instance, in October the company spent on its right of way $4,500,000, as against $3,200,000 in the same month a year ago, and $8,400,000 on equipment as against $6,700,000 in 1919. For the ten months maintenance charges reached a total of $126,600,000 as compared with $88,600,000 the previous year.

It is reasonable to expect that in the near future improved operating efficiency and lower costs for supplies and materials, particularly coal, will bring about a considerable reduction in the cost of conducting transportation. Consequently, even if the depression in general business causes a decrease in traffic offered to the railroads, it would seem as though the New York Central common stock earnings should exceed the 6% level of the last two months.

ALLIS-CHALMERS.—It is exceedingly interesting to note that during each of the past four months to November 30, Allis-Chalmers net profits after deduction of taxes, depreciation and contingencies have been in excess of the corresponding months of 1919.

To date this year, Allis-Chalmers net profits for dividends have been very little less than in the same period of 1919. But all of this comparative decrease occurred in the first four months of 1920, when business consisted largely of orders booked prior to July 1, 1919. It may be recalled that following the armistice and for several months thereafter Allis-Chalmers took new business at some concession in price. The comparative gains in net results in recent months fulfill predictions made some months ago and are a reflection of the full priced contracts which the company has taken continuously since the middle of 1919.

In its fiscal year to December 31 next, Allis-Chalmers promises to earn $9 per share for its $26,000,000 common after taxes, depreciation, contingencies and 7% dividends on the 161,834 outstanding shares of preferred. These profits would compare with $9.57 per share accumulated for the junior stock in the 1919 fiscal period. This means that in four fiscal years Allis-Chalmers will have earned over $41 per share, of which $39 per share, or nearly $6,400,000, has been retained in the business.

Allis-Chalmers for several months has been shipping out $200,000 to $400,000 of apparatus more than it has been booking. To this extent forward orders have been drawn down. But it is emphatically a minor depletion and the company will, undoubtedly, carry over into 1921 a minimum of $18,000,000 unfilled orders, except for December 31, 1917, the largest bulk of forward business at any year's end in its history.

It is, perhaps, generally appreciated that the corporation's financial position has been continuously satisfactory and has shown progressive betterment. Allis-Chalmers has kept scrupulously free from floating debt and at present has net quick assets of over $23,500,000, a sum equal to the par of its preferred, with $28 per share remaining for the common stock.

The conservative character of the company's accounts is indicated by the fact that in 1920 the reserves for depreciation will amount to more than $4 per share on the common and will exceed even the 1919 reserve for this purpose by 10%.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

HA

Eugene Lib.

Members of
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THE GENERAL MARKET.—While attention has continued to be focussed on the market there have been developments transpiring of a reassuring nature. First in importance is the rise in the Federal Reserve ratio to the highest figure this year. The liquidation is finally beginning to be reflected in the banking situation. That it has not previously done so in larger measure is explained in another article. Henceforth, the obstacles to recovery will be less and the gains should be correspondingly more rapid. Secondly, is the surprisingly large foreign trade balance reported for November. While this is, perhaps, not an unmixed blessing and, certainly, is not likely to continue, it does suggest an accumulation of credit that may not be immediately available, but still exists and is bound to be very useful. Another feature is the more general appreciation of railroad economies. The decline in traffic will be very largely offset by the lowered wage bill and general reduction of expenses. Necessarily, it will take some time for this to be fully reflected, but it is going to stand the companies in splendid stead when business turns. The decline in business offered is temporary; the gain in efficiency is, let us hope, more or less permanent.

This, naturally, brings us to the general subject of deflation. Broadly speaking, it may be said that that process of industrial deflation has been completed; that is, so far as the marking down of prices is concerned. Of course, the major part of inventory liquidation remains to be accomplished, but prices cannot be expected to go much lower.

Right here lies the strength of the situation. It is safe to say that most commodities are now selling below cost of production; for a time business may be conducted at no profit or actual loss, but this cannot be continued indefinitely. With commodities selling below cost, there is only one direction in which they can move. The important thing is that, finally, a level has been established where it is safe to do trading, and signs are at hand that trading is being resumed. The "buyers' strike" has won; the dollar will buy more. This, to be sure, is not so evident to the ordinary retail purchaser, but it is bound shortly to be patent, even to him. After all, only a few of us are direct-producers in a large way, while all of us are consumers. It is a far healthier situation to have prices at levels to attract a large volume of buying, at a fair profit, than at levels where only those with abnormally increased incomes can buy.

Moreover, if business men have to accept heavy shrinkages, let us remember that they also formerly made large profits. They are in remarkable condition to stand those shrinkages. Though it may seem that a large part of war profits have evaporated, there are, after all, few business concerns or corporations that are not far better off then in 1913. The gain may be, perhaps, largely found in plant facilities, which may seem of little value at the moment, but this means a greater productive capacity when the tide turns.

The depression marketwise has now reached a point, where in length of time and severity, it will compare with any previous liquidating movement. We can see no reason to suppose it will go materially further. Certainly, the world is not over-stocked. The experience through which we have just passed was disheartening, but necessary to bring us down to a level where business could safely be conducted. We are now down to that level.

Two or three weeks ago we began to modify what may have seemed a rather pessimistic tone; we will now go further and state definitely that in our opinion the time has come to purchase the large majority of seasoned securities; not by an indiscriminate increase of commitments—that would only weaken the situation—but by the legitimate use of resources in proportion to one's means.

This Letter will reach most of its readers on the Day when thoughts turn, for the moment, from affairs of business to other and higher things. If this time finds us somewhat chastened in spirit, nevertheless, as we look out to the distracted and suffering peoples of other lands, there has, perhaps, never before been a Christmas-time when we have had such great reason to give thanks for our Government of law and order and our great material blessings.

THE SUGAR SITUATION.—In all the uncertainty which surrounds the immediate future of the sugar industry a few facts stand out clearly. It may be helpful at this time to elaborate some of these determinable factors.

For one thing the decline in raw sugar—a decline which has proceeded to much more drastic lengths than was generally considered probable—has carried the price down below the cost of production. It is very doubtful if more than a few very Cuban mills could produce their 1921 sugar crop at a selling price of $3\frac{1}{2}$ cents per pound and avoid a loss. Therefore, were recent prices to prevail during the coming crop season it would mean a year of loss to the great majority of Cuban producers. The same statement is broadly true of Porto Rico, of Louisiana and the various American beet companies.

It is, of course, possible that sugar, an agricultural crop, during this period of cataclysmic commodity

price readjustment will have to be produced for a season on a non-profitable or positively unprofitable basis. The mere fact that any commodity has declined below its cost of production does not prove that the price will instantly or automatically recover to a cost price level. It is a fundamental axion of political economy that goods cannot be long created at less than the cost of production. But there is no rule of thumb by which the exact length of time during which goods may be produced at a loss can be determined.

The sugar equilibrium of the world has been profoundly disturbed and the restoration of equilibrium is a perplexing economic problem.

The Cuban sugar industry never suffered from a more costly experience than the spectacular advance in raw sugar prices to a high of 23 cents per pound. When raw sugar got above 15 cents per pound it got into the danger zone in the sense that the continuance of such prices opened the flood gates to an avalanche of sugar into the United States from every corner of the sugar producing world.

This natural tendency was powerfully aided and abetted by the positive action of the refiners in going after heavy tonnages of oriental sugars. It was these sugars which finally overloaded the market and created a wide open break in sugar prices that has cost every factor in the sugar industry with one exception, the loss of some hundreds of millions of dollars.

The one exception to which we just referred is the Cuban sugar companies. They have been in the unique position all through the past few months of demoralization of having no inventory losses to adjust. Thanks to the fact of an unusually early closing season because of drought 90% of the Cuban crop was produced and sold before the price slump was well developed. The other 10% of unsold Cuban sugars could have been marketed except for the greed of speculators who were holding for higher prices.

Broadly speaking, 50% of the Cuban crop is produced by companies controlled by American capital, while 50% is produced by Cuban controlled properties. The American companies practically without exception cleaned up their 1920 crop and were free of sugar when the August price decline started.

This is, perhaps, the most encouraging feature of the present sugar situation from the standpoint of the Cuban companies. The American owned Cuban companies have no 1920 inventory losses to absorb. They enter the 1921 crop year with clean hands and generally speaking with a year of record earnings behind them. There is also the possibility that the price readjustment will be completed in time to permit them to get the benefit of stabilization before the 1921 crop year is over.

At present the chief sufferers from the sugar situation in the United States are the refiners and the beet companies. The 1920 beet crop promises to run between 925,000 and 950,000 tons, a 40% increase over 1919. In fact, this increase in beets nearly offsets the drought shortage in Cuba. The beet companies have sold less than 15% of this year's crop and will, apparently, carry over into 1921 700,000 to 800,000 tons of unsold sugar. Other unsold sugars, including the remaining portion of the Cuban crop are sufficient to bring the carryover of sugar in American markets into 1921 to a total of 1,250,000 tons, which is about three months' consumption. This big bulk of sugar is bound to act as a price depressant until largely absorbed. Happily there are solid grounds for the hope that Europe may demand several hundred thousand tons of raw or refined sugar during the first quarter of next year. Such buying is logical to expect if England and France are to continue to consume sugar because the United States is today the lowest priced sugar market in the world.

There is, of course, every incentive for the Cuban producers to start this year as late as possible. On December 20, 1919, 90 centrals were grinding. On the same date this year only 11 were crushing cane. Last year at this time receipts of new crop sugars were 33,464 tons for the week, this year, 7,646 tons. Furthermore, financial conditions in Cuba are so severe that Cuban properties will find difficulty in borrowing and some of the weaker producers may not be able to start until unusually late. Some authorities estimate the 1921 Cuban crop at not over 3,000,000 tons, compared with 3,748,177 tons this year and 3,971,776 tons in 1919. Anything like a 750,000 ton drop in Cuban output would have a profound effect upon sugar prices sometime during 1921.

Our purpose in thus outlining the present sugar situation is to try to show that it is altogether too early yet to assume that the Cuban sugar companies face a hopeless outlook in 1921. The American market will be overloaded with sugars for some months, but if Cuban production drops 500,000 to 750,000 tons and the decline falls on the Cuban owned properties, then the American capital in Cuba may fare satisfactorily next year. Furthermore, the 1920–21 losses of American beet are likely to be severe enough so that it will be some years before we again have a 950,000 ton beet crop on American soil.

AMERICAN AGRICULTURAL.—The drastic and far-reaching effect of the 1920 decline in commodity prices has had few more striking illustrations than the decision of American Agricultural Chemical directors to pay the January common dividend of 2% in stock rather than cash.

The 1920 slump in commodity prices has borne with particular severity upon the agricultural classes. The farmer has sustained a very heavy loss and what is even more pertinent from the standpoint of the fertilizer companies the decline in selling prices of agricultural crops and above all the holding back from market of great portions of the crop has prevented the farmer from paying his bills.

This frozen condition is, perhaps, most pronounced in the South where the cotton planter has had difficulty in grasping the fact that the bonanza war days are over and that demand and supply are the price regulators of his product.

Fortunately for American Agricultural less than a third of its gross sales are made south of the Mason

and Dixon line. The decline in cotton and tobacco has, therefore, affected it relatively less than some of the other companies.

American Agricultural has been the chief fertilizer producer for the New England, Middle Atlantic and middle western states. But the decline in potato and other northern crops has been most severe. These declines have not received the popular advertising attaching to cotton, corn or wheat. But the effect of the agricultural price slump has been to tie up collections all over its territory.

American Agricultural has, of course, a smaller total of accounts and bills receivable than on June 30, the end of its fiscal year. But the reduction in these two items has been less than 40% of what normally might be expected.

At the same time, the company has been assembling inventory and materials and producing goods for the 1921 spring selling season.

One or two statements are in order. The fertilizer business is a basic industry. It has thrived in the past when industry was prostrate. Its present complexities are monetary and not basic. The bad debts of American Agricultural since organization have been a mere fraction of 1%. The present unpaid bills are perfectly good and will be liquidated with time and patience. In the end, when the farmer has liquidated and has established his cost of production on a lower basis he will again demand fertilizers and in increased tonnages, for it is the universal experience of the modern world that a period of trade depression drives labor back to the soil and broadens consumption by lowering costs.

Immediately it is not unlikely that the 1921 earnings of fertilizer companies will be somewhat below the levels of recent years. But it is perfectly idle in December to predict what 1921 earnings may be. The farmer is not only suffering from a price decline, but even more from practical loss of a market. A little free buying of cotton would produce a radical change in sentiment.

It is perfectly obvious that at its present price level American Agricultural is selling on the basis of anticipated dividend return.

RECENT DIVIDEND REDUCTIONS.—During the last few weeks dividend reductions and omissions have become very numerous and indeed have furnished the "bears" with some of their most effective ammunition. Such a development is almost always an indication that the end of a long decline in security prices is near at hand. It is, of course, a well established axiom that the stock market discounts any event, which can be at all foreseen, in advance of its occurrence, and the action of the individual stocks whose payments have been reduced or passed bears out this theory.

In the following table we submit a list of a few of the more prominent stocks which have suffered a reduction in dividend payments, together with the high prices of a year ago, compared with the current level and the low of the years from 1914 to 1920, inclusive. This seven-year span covers three bear markets, 1914, 1917 and 1920, and it is noticeable that current prices are very close to the lows of the entire period.

We do not wish to be understood as arguing that because a stock has stopped dividends it should be bought. Considerable discrimination is necessary, of course, but where a company has a substantial record of earnings extending over a period of good times and bad it would seem as though abnormally low prices occasioned by dividend reductions or omissions might offer profitable opportunities to the long pull speculator.

	Previous Div. Rate	Current Div. Rate	High Price 1919	Current Price	Low Price 1914-20
American Agricultural Chemical common	$8.00	$8.00*	113¾	55	47¾
American Cotton Oil common	4.00	—	67½	17	15⅛
American International common	6.00	—	132¼	34	30⅛
American Sugar common	10.00	7.00‡	148⅜	89	82⅛
Chino	1.50	—	50⅞	18	16⅜
Central Leather common	5.00	—	116½	35	25⅞
Fisk Rubber common	3.00	—	55	11	10
Inspiration	4.00	—	68⅞	29	28
Keystone Tire	1.20	—	126½	7	6¼
Pacific Development	4.00	—	80	11	11
Nevada Consolidated	1.00	—	21⅞	9	8
Stromberg Carburetor	4.00	2.00	118¼	28	22⅛
Vanadium	6.00	4.00	97	34	28½
United States Food Products	6.00	—	91⅜	17	5½†
Willys-Overland preferred	7.00	—	98¼	30	26
Willys-Overland common	1.00	—	40¼	6	5⅛

*Payable in stock.
†Old Distillers Securities stock.
‡Extra of 3% which had been paid for 2 years omitted.

THE BOND MARKET.—The outstanding feature of the Bond Market for the past week has been the great activity and decline in the various 4¼% Liberty Bonds contrasted with the comparative steadiness of the highest grade of Railroad issues. At their present levels, these 4¼% issues show an average decline

of 9.20 points from their average high of 1920 and an average decline of 11.50 points from their average high of 1919. The following table shows their current prices and yield to maturity:—

	Price about	Yield	Range in 1920 High	Range in 1920 Low	Range in 1919 High	Range in 1919 Low
First Conv. $4\frac{1}{4}$s, 1947	84.30	5.35%	94.00	83.80	96.60	92.80
Second " $4\frac{1}{4}$s, 1942	83.50	5.55	92.90	81.40	95.36	91.12
Third $4\frac{1}{4}$s, 1928	86.20	6.50	95.00	85.80	96.60	91.50
Fourth $4\frac{1}{4}$s, 1938	84.10	5.65	93.00	82.00	95.72	91.00

It will also be seen that these bonds are at present selling at an average of only $1\frac{1}{4}$ points above their lowest prices on record. Their decline to the present levels can, of course, be accounted for by the unparalleled liquidation in all securities. It is to be expected, therefore, that when this selling pressure relaxes there should be a sharp rebound in Libertys exactly as there was shortly after they reached their record lows in May, 1920.

In the period of stagnation and hesitancy which comes in the investment market after severe liquidation, it is only natural that people in placing their funds turn to the highest type of securities. In addition to Liberty Bonds being the country's premier securities, there are certain tax exempt privileges which attach to them. We believe that the present time offers investors of moderate means, who have not yet exhausted the possibilities of their tax exemptions in Liberty Bonds, a splendid opportunity which may never be duplicated after the present strain is passed.

BANK RESERVES, BUSINESS AND THE MARKET.—The marked improvement in the ratio of reserves to deposit and note liabilities reported by the Federal Reserve system for the last week, which brought the reserves up to 45.6%—the highest figure of the year—may fairly be considered an indication that the tremendous shrinkage in commodity and security prices and the reaction in general industry are at last bringing relief from the money strain.

The process has appeared very slow because, while the deflation in prices and industry set in about a year ago, bank reserves showed no material improvement until the past few weeks. The low point for the year was 42.2%, recorded on May 14; but only so recently as October 15 they were down to 42.7%.

This slowness of recovery has without much question been due to the fact that while we have been deflating our own price balloon, with perhaps more speed than was desired, we have extended credits abroad on a very large scale. Surprise has frequently been expressed that our export trade held up to such remarkable figures this year in the face of the greatly depreicated foreign exchanges, and the only solution to the mystery is that we have made the sales abroad on long time paper.

How much these foreign credits amount to it is probably impossible accurately to determine. The balance of exports for 11 months of 1920 has been approximately $2,500,000,000 on top of $4,000,000,000 in 1919. It is estimated that at least $3,500,000,000 of private credits have been extended to foreign countries in addition to the nearly $10,000,000,000 of loans made directly by our Government.

These foreign credits, of course, were not extended as a matter of charity. There was a profit in them and probably a larger profit than could have been obtained at home; for otherwise the business would have been done here.

The point that we wish to make clear is that before any considerable expansion of business can take place in this country it will be necessary to bolster up our bank reserves much above their present level. The Federal Reserve System's ratio of reserves is now, and probably will be for the future our best barometer of business conditions and possibilities; as the reserve figure of the national banks issued by the Comptroller of the Currency used to be before the Reserve System was created.

A variation of about four points, between 20 and 24, in the old national bank reserve ratio used to measure all the difference between boom and depression. What will be the range on the Reserve System's ratio probably can only be guessed at. It has been demonstrated, however, that the Reserve Board would take strong measures to prevent its falling below 40% and with all our inflation it did not go as low as 42.

To provide the basis for a new boom it is believed it would have to rise to between 55 and 60, or 10 to 15 points above its present level. In order to attain that position it would be necessary for us to either increase our cash reserves about $500,000,000, or to cut down bank credit by about $3,000,000,000 to $3,500,000,000, or roughly about what we are owed on foreign private accounts.

That seems a tremendous sum; but when we mark down the market value of last year's crops by $5,000,000,000 and our listed securities by nearly $3,000,000,000, as we have done in the past year, it is evident that similar reductions on the rest of our national inventory would go a long way towards creating the desired amount of released bank credits.

It is the usual experience that once the worst of the strain has passed the easing on money rates is very rapid; and indeed it may be said that in a few months after the panic point money becomes a "drug on the market."

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

H A

E. L.

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No. 890 December 31, 1920

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THE GENERAL MARKET. — As the year draws to a close, it becomes pertinent to review briefly the events of the last 12 months. To be sure, these have been so altogether disheartening that most of us would like to dismiss the subject as quickly as possible and "leaving those things that are behind," press on to a more hopeful future. Yet there are one or two features that may profitably be dwelt on briefly and even some that are distinctly encouraging.

Perhaps the most outstanding feature was the excellent performance of the Federal Reserve System in its first critical trial. It is hard to believe that under our previous banking system such a drastic readjustment could have been passed through without general disaster. There have been not only no important bank failures, but at no time any real anxiety. To be sure, the deflationary pressure that has had to be exercised has—at times—drawn some criticism, but we think it will be generally appreciated that this was indispensable. Today, the banks command the confidence of all and stand with a reserve ratio practically equal to that of a year ago. It has been proven to be an excellent system, wisely administered.

Industrially, it has been a year of great trial and disappointment. Even the most far-sighted business management could not avoid all loss in such a perpendicular drop in commodities. Undoubtedly, the high water mark of industrial mortality has not yet been reached; yet there has been no severe smash-up, and most corporations have left ample resources to carry on a profitable business. The one great benefit has been the increased efficiency, not only of labor but, we believe, of management as well. The output per man, today, is far greater than it was a year ago. To reach this goal is, after all, worth a good deal of suffering, for it was indispensable if this country was again to do business on a profitable basis under normal conditions. If pocket-books are somewhat lighter, our feet are again on the ground. We have learned again, as is necessary from time to time, that industry and saving are the only true road to prosperity, and when this country begins to save in earnest the investment fund fills up rapidly.

Unquestionably, the most constructive act of the year was in the railroad field. For over a decade, the railroads have been so persecuted that only a very few of the most prosperous could command anything like sufficient credit. The result was a general breakdown when put to an unusual strain. Business men finally came to realize that this was the most expensive kind of service; that it is far cheaper to pay a higher rate and get the traffic moved. This sentiment crystallized in Congressional action and the rate increase. Possibly, in some commodities or sections, the new rates may prove to be more than the traffic can bear and may have to be modified. This, in some instances, has already been done. But the important thing is that the principle has been established that the railroads are entitled to a living wage that will attract capital. This is the final crucial test under private ownership and management, and so strong is the sentiment of the country against what has proven wasteful Government operation that we believe it will be successful. Already, since the return of the roads to private management, there has been a great improvement in operating results. With the greater efficiency resulting from the temporary falling off in traffic, the outlook for these servants of the public is, we believe, brilliant.

Needless to say, the feature that has made the deepest impression on all those interested in the security markets has been the melting away of values. Theoretically, we all knew it had to come, but few, indeed, could have visualized such a prolonged and drastic decline. The best thing about it is, that all signs point to its being over. Today, most stocks are selling at levels where normal earnings would mean handsome returns, practically all for much less than their replacement value and some for even less than their net quick assets. This provides the most solid kind of a foundation for a prolonged upswing; not that one can expect—as yet—any sudden uprush of prices; there is bound to be a period of backing and filling. The real upswing may be somewhat delayed, perhaps, in some cases, until the following year, but there is every reason to believe that we may look forward, marketwise, to 1921 as a year of constructive valuation.

THE POWER CREATORS.—It is a highly interesting and suggestive fact that during the past months of slumping business, inventory losses and order cancellations there has been one great group of manufacturing companies whose operations have been largely exempt from the great down-sweep in general prosperity. This group for lack of a more precise classification may be called the makers of power creating machinery and equipment. It includes the equipment and electrical companies and manufacturers allied directly with the electrical industry.

The under-development of power facilities during the war left a vacuum so broad that even the present depression in general business has not as yet sufficed to stem the current of incoming orders. True, if the

present depression is unduly prolonged this great group of manufacturers may find their sales so curtailed that they will be obliged to order a lower basis of production.

It has been estimated that the United States could immediately use 60 to 70% more power than the present installation can deliver. Only by throwing heavy over-loads upon existing equipment have scores of central power stations been able to perform their public service. In hundreds of cases reserve equipment, held as a margin of safety in case of accident, has had to take a daily part in the routine of power production. Not all of this void can be filled in a short time. It will likely be several years before the country has even 90% of its power demand satisfied.

The question of finances is intimately related to this problem. A fuller restoration of public investment confidence in utilities, notably power companies, would of course quicken the speed by which the under-development of the war could be wiped out.

The equipment companies are producers of another kind of power machinery; locomotives and cars which furnish the power to transport goods from the locality where they are produced to those localities where they are needed for consumption.

The actual shortage of locomotives and rolling stock may not be quite as great in a percentage way as is the shortage of stationary power apparatus. But the shortage is a tremendous one and while 1920 has been somewhat deficient in volume of equipment orders this is a reflection first of lack of railroad credit, and secondly, of the fact that after the new railroad legislation had restored railroad credit the money market itself was so unsettled as to preclude a period of free financing.

In spite of these handicaps the equipment builders have had this year 12 months of good business. This is notably true of the locomotive companies which will carry over into 1921 a much larger total of unfilled orders than they had on hand at the start of 1920. Meantime concerns like American Car & Foundry and Pressed Steel Car have had no difficulty in earning their dividends, both preferred and common, from a certain flow of new orders plus an unusual volume of repair work and miscellaneous production. Auxiliary equipment concerns such as Railway Steel Spring and American Steel Foundries have done as well in 1920 as in 1919 and start the new year with a favorable balance of forward orders.

There has naturally been of late some recession in the incoming orders of such concerns as General Electric and Westinghouse. Nothing less could be expected, but both companies are continuing to take business at a rate representing over 75% of capacity.

Furthermore, both companies will commence the new year with the largest total of unfilled orders they have ever had at a year's end and equal to practically six months' capacity production. This is a splendid backlog with which to enter a new year. It means that even if new business booked should decrease still further these two manufacturers would be obliged to hold operations at close to the present level in order to meet delivery promises.

Western Electric is the producer of another type of power equipment, the apparatus furnishing power for the transmission of the human voice by telephone. The demand for additional telephone facilities is apparently insatiable. Here, again, is another void created by war conditions which has been only partially filled.

There are two companies which are allied with the electrical industry whose business has shown the same resistive qualities displayed by the electrical companies. Allis-Chalmers has had a most satisfactory year in 1920. It will carry over into 1921 about six months of unfinished business and its incoming orders, while showing a natural decline, are still at a satisfactory level.

Worthington Pump is another corporation belonging to this favored group. Its classification has, perhaps, been partially obscured by the low appraisal which the stock market has placed on the safety of its $6 common dividend. But 1920 net profits will be satisfactory and the carry-over of unfilled orders into 1921 will be much larger than the $8,700,000 of unfinished business on hand on December 31, 1919.

There is another common trait which distinguishes the 1920 sales history of these power creating manufacturers. None of them have suffered from cancellation of orders. Analysis of the cause of this is not pertinent at this time. But it is a fact and it has a very considerable importance in forming an estimate of the value of their securities.

ASSOCIATED DRY GOODS.—Considering the severity of the decline in commodity prices, Associated Dry Goods has come through the past six months in a remarkably satisfactory manner. Its inventory situation has been carefully handled and at the close of the fiscal year on December 31, its inventory will not vary materially from the December 31, 1919, total of about $9,100,000. There is this further important fact that the company has been charging earnings heavily right through the year for depreciation of inventories, so that at the year's end inventories will be virtually carried at replacement figures or so near such figures as it is possible to effect appraisal.

The importance of a sound inventory position to a retail store organization like Associated Dry Goods, which in 1920 will handle in its seven wholly owned stores a gross business of over $55,000,000, is so evident as to require no extended comment. Were Associated Dry Goods carrying over into 1921 $9,000,000 or

more of goods on which heavy losses would have to be taken when converted into cash, the net profits for 1920 might properly be considered fictitious to just that extent.

But such further charges as may have to be made against inventories for depreciation will start from a December 31 replacement value and not from the high prices of last Spring.

Furthermore, Associated Dry Goods turns its inventory over on an average of once in two months. There is in this velocity of conversion a very considerable safeguard against falling prices. On the other hand, in an advancing market the company does not get the benefits which accrue to companies with a slower turnover.

The prospects are that so far as its fiscal year to December 31 is concerned Associated Dry Goods will show a balance for the $14,985,000 common after deduction of taxes and dividends of $1,199,607 on the $20,539,200 of first and second preferred of between $7 and $8 per share.

These profits compare with $13.30 per share in the 1919 fiscal year and are exclusive of net earnings of Lord & Taylor, about 70% of whose stocks are owned by the parent holding company, Associated Dry Goods.

It is interesting to note on the basis of the anticipated results in the fiscal 12 months to December 21, 1920, the company will have earned the $828,000 required to pay 6% dividends on the $13,813,700 of first preferred between two and one-half and three times. In the last three fiscal years the earnings accumulated for this senior preferred issue have exceeded $8,000,000, or over $55 a share.

The initial dividend on the common was declared payable on May 1. The present $4 dividend rate has been more than covered by 1920 profits and what is equally important the consolidated treasury position will be as strong on December 31 as it was a year ago. Not only that but the prospects are that at the year's end the parent company and its operating stores will be entirely free from any bank debt.

The floating debt situation with Associated Dry Goods has never been more than an incidental matter. For instance, at the end of 1919 the seven wholly owned stores had a bank obligation of only $700,000. Even this moderate debt will probably have disappeared by the end of this year.

Associated Dry Goods sales up to October were running about 30% ahead of last year, while net profits were 35% less. This in a broad way summarizes the adverse effect of declining price levels on its business. The margin of profit has been whittled down by a steady decline in commodities and by constant inventory adjustment.

In a period of stabilization it is a fair argument that a better margin of profit would go a long way in atoning for any decrease in the volume of gross business.

PREFERRED STOCKS TO YIELD 10%.—A striking commentary upon the drastic liquidation of the past year is offered in the present prices of some of the industrial preferred stocks which only a short time past were regarded as having a fairly high investment rating.

We have prepared the following list of preferred stocks, which are now quoted at prices to yield about 10% or better. Of course, a stock yielding such a high return cannot be considered the very highest grade of investment security. It should be noted, however, that practically all of them have sold on a 6% or 7% basis within the last five years. They all have a fairly long dividend record behind them and in the majority of cases dividend payments are still being made on the common stocks, although the continuance of these may be open to some doubt.

Preferred Stocks	Dividend Rate	Dec. 29 Market	Range 1916-1920	Current Yield
Allis-Chalmers	7%	69	97 —65	10.1%
American Cotton Oil	6	60	102 —60	10.0
American Ice	6	54	76¼—35	11.1
American Smelting	7	68	118⅛—64½	10.3
Atlantic Gulf & West Indies	5	47	76½—42	10.6
Cuba Cane Sugar	7	58	100½—54	12.1
Famous-Players-Lasky	8	76	91⅝—66	10.5
General Motors 6% debenture	6	59	94¾—58¾	10.2
Goodrich, B. F.	7	70	116¾—70	10.0
International Mercantile Marine*	6	48	128½—44	12.5
International Motor Truck, 2d	7	55	71 —55†	12.7
Kelly-Springfield Tire 8%	8	80	110¼—75	10.0
National Cloak & Suit	7	62	113 —62	11.3
Pierce-Arrow Motor	8	66	111 —59	12.1
Pierce Oil	8	74	105½—72	10.8
Worthington Pump & Machinery, B	6	56	81 —50	10.7

*42% back dividends still due.
†Not listed until 1920.

EXPANSION IN RAILROAD GROSS EARNINGS.—So far under the new rates the result has been mainly an increase in gross earnings. It is true that here and there a road has shown a sensational increase in net earnings over a single month of last year; but there has been no uniform increase in net either for the country as a whole or for any particular section.

Partly as a result of increased maintenance expenditures deemed necessary to put equipment and roadbed back into good shape after the congestion of the past several years, partly as a result of the usual inability of the railroads to cut down expenses simultaneously with the first falling off in the volume of traffic, operating costs have remained unduly high. A good many roads are still spending in running expenses 90 cents or more of each dollar of gross earnings, as against an average of about 70 cents before the war.

Until recently a return to a 70% operating ratio has seemed an impossibility. The vast increase in gross earnings with comparatively little change in capitalization would in itself permit of profitable operation of the railroads even if the operating expense ratio remained permanently higher than in pre-war years. But the sharp drop in commodity prices in recent weeks, together with the improvement in the labor situation, is likely to be reflected soon in a very material lowering of operating expenses. If the railroads could save 20% of the big gross earnings they are now showing—and are likely to show under normal traffic conditions on the new rates—they would be better off financially than they formerly were when they were saving 30% of gross for net. But it is not unreasonable to expect that they will save 25%, and perhaps the full 30% when once they have been properly adjusted to the new conditions.

Attention of the investing public has been centered so largely upon industrial issues in the past half dozen years that the tremendous increases in gross earnings of the railroads have received little comment. Even before the recent rate increase many of the prominent roads had doubled, or nearly doubled, their gross earnings as contrasted with the years immediately preceding the war. Up to 1913 there were only four or five roads in the country that did a gross business of $100,000,000—today only the smaller systems are doing less then $100,000,000, and there are at least six roads that are doing more than $200,000,000.

This great increase in gross earnings has been accompanied by a comparatively small increase in capitalization, and in particular by very little change in the amount of capital stock.

To take one or two striking instances, Baltimore & Ohio's gross earnings first exceeded $100,000,000 in 1913. Now it is reporting at the rate of $260,000,000. There has been an increase of about $100,000,000 in bonded debt, but no increase in stock capitalization in this period. Chesapeake & Ohio has nearly trebled its gross earnings from $35,000,000 in 1913 to $110,000,000 at the current rate, without increasing its capital stock, and with an increase of only about $20,000,000 in bonded debt. Pere Marquette and St. Louis & San Francisco have more than doubled their gross earnings, with either a reduction or no increase in capitalization.

The following table shows gross earnings (in millions) for 1913 as compared with the present annual rate, and also shows the amount of common capital stock outstanding at present:

	Gross Earnings in 1913 (in millions)	Present Annual Rate (in millions)	Common Stock Outstanding (in millions)
Atchison	116.8	220.0	222.8
Baltimore & Ohio	101.5	260.0	151.9
St. Paul	94.0	165.0	117.4
Rock Island	71.3	135.0	74.4
Erie	59.4	133.0	112.4
Great Northern	78.6	118.0	249.4
Missouri-Pacific	62.1	121.0	82.8
New Haven	68.6	136.0	157.1
Northern Pacific	72.6	126.0	248.0
Pere Marquette	18.0	45.0	45.0
St. Louis-San Francisco	46.0	100.0	50.4
Southern Pacific	130.3	300.0	302.0
Southern Railway	68.5	160.0	120.0
Union Pacific	93.6	210.0	222.2
Chesapeake & Ohio	35.0	110.0	62.8

Of the above companies only three, Atchison, Great Northern and Southern Pacific made any appreciable increase in capital stock outstanding and these increases in stock were offset by reductions in debt. In other cases, where reorganizations have taken place such as in Rock Island, Missouri-Pacific, Pere Marquette and St. Louis & San Francisco, the financial structure has been improved.

The above reports and statements we believe to be correct and are from sources which we regard as reliable.

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